

Aid coordination: a recipient's perspective

The need for, and obstacles to, better aid coordination in a small economy: the case of Togo

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Economic difficulties during the first half of the 1980s and, in particular, the budgetary and other constraints in donor countries have led to a critical review of development aid, including means to increase its effectiveness. The Report of the Task Force on Concessional Flows appointed by the Development Committee in 1985 (see *Finance & Development*, March 1986) concludes that the effectiveness of aid has, on the whole, been adequate, and public support for aid remains strong. In view of the unfavorable economic environment facing many developing countries and the remaining large unmet needs, there is a clear case for an increased volume of aid. In this setting, aid coordination emerges as a critical issue. Its objectives must be to improve the efficiency of existing aid, to ensure better use of any additional aid resources, and to reinforce public support for aid in donor countries.

Aid coordination is a complex matter and one of concern to donors and recipients alike. The actions of both determine its scope and success. On the donor side, certain policies and procedures, such as tied aid, mixed credits, and occasionally a reluctance to share information, reduce the prospects for aid coordination. A major part of the responsibility for aid coordination, however, rests with the party most intimately affected, the recipient country. Government initiatives to promote and manage aid coordination are indispensable, and policy and institutional reforms are often prerequisites for successful aid coordination. This article examines the main aspects of aid coordination from the perspective of Togo.

Aid to Togo...

Togo is a small coastal country in West Africa with a population of three million and a per capita income of around \$240 a year. Agriculture employs three quarters of the

work force. Phosphates, coffee, cocoa, and cotton are the main exports. Economic policies are generally liberal, market-oriented, and outward-looking. Since 1983 Togo has pursued a close and fruitful policy dialogue with the World Bank and the IMF, a dialogue reflected in several structural adjustment credits and stabilization programs.

As in many developing countries, domestic savings in Togo are limited and public investment has been sustained mostly by development aid. The pursuit, since independence in 1960, of an outward-oriented economic policy in combination with a pragmatic foreign policy has enabled Togo to diversify its foreign aid sources to a remarkable degree: indeed, Togo's donors include countries from different political persuasions.

Although development plans have existed, development policy has been built around individual projects rather than based on an economy-wide or sectoral strategy within a coherent macroeconomic framework. This is in part because, as indicated above, the execution and completion of projects depended critically on the availability of foreign financing over which Togo has had only a limited influence. As a result, investment in some sectors (for instance, industry) has exceeded plan targets, while in others (such as rural development) it has fallen short of objectives. Despite these shortcomings, investment in infrastructure, as a top priority, has brought about a good transport and communication network which was crucial for the promotion of Togo as a regional trading and financial center.

The table shows the evolution of public investment by sector for the period 1982–85. Total investment declined by 40 percent between 1982 and 1984 as Togo confronted the need to cut public spending, exacerbated by a heavy debt-service burden. Renewed growth in 1985, combined with the salutary

effects of structural adjustment and financial stabilization measures, permitted an increase of 8 percent in public investment.

On the financing side the predominant role of aid is clear. Except in 1982, concessional foreign financing accounted for about 80 percent of total financing. During the period 1982–85, the global recession, budgetary constraints in donor countries, and fiscal austerity in Togo led to a decline in total aid flows from \$81 million in 1982 to \$57 million in 1985. IDA is by far the largest single source of aid, although, as already indicated, Togo receives financial assistance from many sources (a total of some 30 donors excluding about 40 nongovernment organizations are active in Togo).

...but uncoordinated

Until recently there was little or no coordination of aid received by Togo. The reasons for the absence of effective aid coordination are to be found both within Togo and among the donors.

Within the Government there was no clear policy or mechanism to coordinate aid flows. In large part this was because the overriding objective was to convince donors to finance specific development projects. The authorities were aware of donors' preference for providing aid in accordance with their own procedures. Consequently they did not wish to intrude upon the donors' aid decisions and thereby risk discouraging aid flows. However, the need for aid coordination became a pressing issue in the early 1980s as economic difficulties reduced aid flows. The authorities began to perceive that coordination of donor activities could be of great benefit, both as a means of mobilizing additional aid and as a way of increasing the efficiency of existing aid. They were concerned, however, that such coordination not be used by donors to encroach upon the country's sovereignty.

On the donor side, there was also some hesitation regarding aid coordination. Individually, donors were aware of the political and economic advantages they had accumulated during many years of aid giving and feared that these advantages might be lost in a framework of reinforced aid coordination on terms defined by the recipient country. Negotiating the content and volume of aid through bilateral channels allows donors better to pursue their political, economic, and commercial interests. In general, therefore, do-

ment policy and, to a lesser degree, the resistance of both the Government and donors to aid coordination led to a suboptimal allocation of aid in Togo. Many donors adopted an aid program or agreed to finance development projects to suit their own preferences and evaluation procedures, without reference to Togo's overall needs or to other available aid. The consequences of this approach can be seen most clearly in the rural sector. (1) Donors financed extension services attached to their own, geographically limited, projects,

in these areas. (3) Donor preferences for cash crop production, where credit recovery is relatively easy, resulted in some neglect of food crops, where credit recovery is harder, even though Togo has a potential to become a regional supplier of food crops. (4) More generally, the lack of a coherent rural development strategy produced a patchwork of scattered and disparate projects, with numerous projects financed by different donors in the same region without taking account of the complementarity among them.

The absence of aid coordination also produced negative results in other sectors. For instance, donors have continued to finance construction of new roads, some of them in sparsely populated areas, while the existing road network has deteriorated because of inadequate maintenance.

Ways of coordination

The economic difficulties of the early 1980s—in particular the severe recession and debt-servicing problems—provided an opportunity for the authorities to re-examine economic policies, including aid coordination. It became crucial to improve the management of scarce public resources and to plan for a better mobilization of resources, both local and external. The 1981–85 Development Plan, which was, like its predecessors, a list of projects presented for possible foreign financing rather than a statement of development strategy, was revised. It was replaced by a leaner, but operationally more relevant, three-year rolling public investment program, for 1983–85, elaborated in conjunction with an IDA-supported structural adjustment program. An IDA-supported technical assistance project financed the services of an investment programmer and a project evaluation adviser.

At its inception this three-year public investment program was more a means of ensuring compliance with budgetary austerity—inescapable to honor debt-service obligations that were sizable even after debt rescheduling—than a means of implementing investments within the framework of a development strategy. But this gradually changed as the public investment program took hold and budget constraints began slowly to recede. The public investment program and, in a broader sense, the structural adjustment process, became the catalyst for more strategic thinking about development issues and a more systematic and active approach to project identification and selection. Moreover, with the investment program at its disposal, the Government felt confident it could now promote aid coordination under its own initiative. The structural adjustment programs provide for an annual review by the Bank of the Government's public investment

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	1982	1983	1984	1985
Expenditure				
Agriculture	21.6	19.9	26.5	30.3
Industry	32.3	5.8	4.6	4.0
Infrastructure	39.9	37.5	27.5	31.2
Human resources	1.8	1.8	6.4	6.0
Administrative and Social	19.2	16.0	4.3	3.6
Total	114.7	81.1	69.3	75.0
Financing				
Domestic	34.1	15.5	13.0	18.5
Foreign	80.6	65.6	56.3	56.5
Grants				
European Development Fund	(4.3)	(9.2)	(7.8)	(3.8)
German Technical Cooperation Society	(6.7)	(5.2)	(4.6)	(4.2)
French Aid and Cooperation Fund	(1.2)	(1.6)	(1.6)	(1.6)
Others	(11.0)	(7.8)	(6.9)	(8.2)
Loans				
IDA	57.5	41.7	35.5	38.7
African Development Bank	(9.1)	(13.9)	(11.7)	(9.3)
French Fund for Economic Cooperation	(0.9)	(4.2)	(3.7)	(5.8)
German Reconstruction Credit Institute	(5.2)	(5.2)	(4.8)	(5.8)
Kuwait Development Fund	(8.2)	(2.4)	(4.3)	(4.7)
Other	(4.3)	(3.7)	(1.6)	(4.0)
Other	(29.8)	(12.3)	(9.4)	(9.1)

Source: Estimates by Ministry of Planning and Industry, Togo, and World Bank Resident Mission, Togo.
* Excluding Nangbeto Hydroelectric Dam.
** Converted from CFA francs at average annual exchange rates.

program and such reviews have strengthened the Government's hand in its dealings with donors.

Under this initiative, the aid community is presented with the Government's public investment program and its list of priority projects that need foreign financing. The projects are inevitably at different stages of preparation. By submitting its own program, however, the Government has tried to present an overall plan for foreign aid and to avoid duplication and gaps in the development plan. In addition, there is now a lesser possibility of superficially prepared projects being launched only because foreign financing has become available.

Aid coordination has been greatly facilitated by having all donors review the same detailed public investment document. In this way donors are made aware of projects that other donors are financing and can take that information into account in determining the projects that they will finance. Complementarity among donors is reinforced. Furthermore, the existence of an operational public investment program facilitates arrangements for cofinancing. Cofinancing is increasingly common in Togo and has enabled many new donors, large and small, to participate in the financing of development projects. The newer, for example, Arab, donors usually cofinance with a more experienced donor such as the Bank, and rely to a large extent on the appraisal, monitoring, and evaluation capacity of the more experienced partner. The majority of Bank-financed projects in Togo are today cofinanced with various other donors, both bilateral and multilateral.

Aid coordination has been reinforced not only for project aid but also for program aid. The greater attention devoted to strategy and policy issues as a consequence of the structural adjustment process and public investment programming is one contributing factor. Another is the sharper attention to macroeconomic policies, and more broadly to the formulation of a medium-term macroeconomic framework, resulting from the complementary Bank-supported structural adjustment programs and the Fund-supported financial stabilization programs. A third factor is the increasing willingness of major bilateral donors to contemplate program aid, and to coordinate such aid with the Government and the Bank in the context of structural adjustment programs, which in a sense have become catalysts for such additional program aid. For instance, French program aid became complementary to the first structural adjustment credit from IDA and drawings on the Fund in 1983-84. Special joint financing arrangements with the Federal Republic of Germany and Japan are under preparation in the context of the Special Facility for Africa to complement

the second structural adjustment credit in 1986.

Especially noteworthy is a US program aid initiative for 1986, because it highlights the complementary roles that various donors can play in promoting policy reform. US program aid will quickly be disbursed once the Togolese Government issues a statement liberalizing exports of food crops (potentially a major source of export earnings). Progress has been achieved in negotiations between Togo and the United States on the issuance of export licenses. Both the Bank and the Fund have been advocating such reform, the timing of which is opportune, following two years of good harvests.

To pursue aid coordination further, and in a broader setting, the Government in June 1985 organized a donors' conference in Lomé, the capital of Togo. The conference was cosponsored by the UNDP and the Bank. It was both a diplomatic and a technical event. It enabled the Government to present its 1985-90 development strategy-cum-supportive projects to a broad donor audience. The donor community endorsed the strategy (which gives priority to rural development). Because of manpower and time constraints, the projects presented were, however, in some respects inconsistent with the development strategy, and the quality of project preparation was uneven. It became evident that it is easier to conceive and elaborate a development strategy than to identify and prepare projects supportive of that strategy. The Government's capacity to prepare such a set of projects remains limited. Technical assistance in project preparation can have an impact only over the medium term. In the meanwhile, however, there may be pressure to finance projects for which donor resources are available but which may not be consistent with the overall strategy.

Because of the discrepancy between the development strategy presented to the donors' conference and the list of accompanying projects, the discussion of projects to be financed was postponed to subsequent sector-specific donors' conferences. The first such conference, appropriately related to rural development, was held in March 1986. Another conference focusing on program aid, to be chaired jointly by the Government and the Bank, is scheduled for early 1987.

The Government has found the approach of first discussing strategy and then projects useful in dealing with the donor community. Aid coordination is promoted through the discussion of strategies proposed by the Government. Once a consensus is reached with donors on strategies, it is easier to agree on and coordinate the financing of projects contained within the investment program reflecting these strategies.

Obstacles remain

Although Togo and the donor community have in recent years come to realize more fully the advantages of closer aid coordination, attitudes and procedures still have to evolve for aid coordination to reach its full potential and thus contribute to a better use of aid resources, and conceivably also mobilize more aid.

On the recipient side, the obstacles to further aid coordination stem primarily from

Improving aid coordination

Financing Adjustment with Growth in Sub-Saharan Africa, 1986-90, a report by World Bank staff, published in April 1986, discussed this question at length. It concluded that donors must act more in concert—with each other and with recipients. It suggested six ways to improve coordination:

- Donors must be willing to work within adjustment programs designed by African governments.
- They should better harmonize decisions on aid and debt relief, taken together.
- The major participants should discuss the elements of the required financial package in advance of full-scale aid coordination meetings.
- To provide effective support for medium-term adjustment, donors should be more willing to give medium-term indications of aid.
- Instruments should be established to monitor progress toward economic reform and toward implementing governments' and donors' agreements.
- The multilateral agencies must assume a larger role in orchestrating donor assistance—both in designing adjustment programs and in financing them. The World Bank and the IMF, in particular, must work together with African governments, first to develop adjustment and investment programs aimed at restoring growth, and second to assess the requirements for, and sources of, external finance to put the investment programs into effect.

the absence of a fully articulated and coherent aid coordination policy by the Government. Despite the important efforts made since 1983 to ensure a more rational use of aid resources through investment programming, there is as yet no full commitment to aid coordination: Togolese officials still show a certain ambivalence on this matter. Informal meetings occasionally held among the local representatives of donors are viewed by some officials

as aimed at creating a cartel that seeks a greater say in the Government's development policies. The Government, naturally, resists such a development.

On several occasions, high-level officials have stressed that aid coordination is a matter that cannot be delegated to outsiders, and in any case the Government is better placed than any donor to promote it. During the preparation of the 1985 donors' conference, Government officials stressed to the Bank and the UNDP that Togo wished to retain full control over aid coordination. The Government upon occasion did appoint lead donors for specific sectors, although this was not always the case. Nor was it receptive to the idea of meetings among donors without Government representatives present.

But, even an unequivocal commitment to better aid coordination might be constrained by institutional arrangements. For a more assertive role in aid coordination it would be necessary to develop within the administration an effective unit in charge of coordinating aid activities. In such an event, the autonomy of the technical ministries in project selection would become more limited. Without improved coordination and planning in these matters the quest for greater efficiency in aid allocation may remain unfulfilled.

The obstacles on the donor side stem from the disparate policies and procedures applied by various donors. Since donors are keen to preserve their autonomy, attempts to harmonize aid policies and procedures have occasionally been resisted. More coordination among donors should, in the view of the Government, alleviate the workload imposed on the administration by disparate donor procedures and timetables. As an illustration, the large number of uncoordinated missions from various donors can put exorbitant claims on the limited time of senior Government officials. Successive donor missions are time-consuming and are frequently devoted to topics already discussed with missions sent by other donors. The different donor parties dealing with Togo could, for instance, establish regular contacts among themselves, ex-

change policy views, discuss strategy, and plan common missions in areas of joint interest. Such a cooperative effort, involving the Government as a full partner, while not limiting their autonomy, would provide donors with an opportunity to conceive a coherent aid strategy in the interest of the recipient country.

Project preparation and implementation are sometimes hampered by incompatible donor procedures. For instance, the start-up of an education project was delayed for nearly a year before different donor procurement rules could be reconciled. This problem can be particularly acute in the case of large projects cofinanced by numerous bilateral and multilateral donors which often follow different, and sometimes even irreconcilable, procurement procedures. The Government is obliged to divide the project into distinct components to accommodate the specific procurement procedures of different donors. The ensuing financing plans can be quite complex. Skillful project design and management are required to avoid delays in project implementation and

the imposition of a heavy burden on an already strained government machinery.

An outstandingly successful case of how to cope with the procurement complexities of large multi-donor projects is the Nangbeto Hydroelectric Dam (and related infrastructure) being built by Togo together with neighboring Benin. This project is financed by ten different donors in addition to the two countries' joint electricity company. The financing plan is a large matrix with different donors financing different components often under different procurement rules. It was carefully devised to ensure a continuous smooth execution of the different components of the project. In addition, close coordination and cooperation among suppliers (and donors) was maintained during project implementation. Specialized managerial staff, including technical assistance, were devoted to this task. The result has in this case been project execution right on schedule.

In brief, the need to make better use of development opportunities requires a streamlining of recipient country relations with donors and more coordination among donors.

In conclusion...

Despite some lingering hesitation, there is growing recognition of the importance of enhanced aid coordination in Togo, as well as of the requirements for institutional and policy reform to further this process. There is a convergence of opinion, among the Government and donors alike, that aid coordination, and thereby better use of scarce resources, is a key element in the pursuit of growth and development. But a general agreement on the merits of aid coordination, though a major step, is not enough. It must be complemented by agreement between the Government and donors on the best practical means of achieving the goals of aid coordination. A coherent and operational public investment program, supported by overall and sector strategies in a realistic medium-term macroeconomic framework, is a useful starting point toward more effective aid coordination in particular and more efficient resource use in general.

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Multilateral Investment Guarantee Agency (MIGA)

A meeting of the preparatory committee of the signatory states of MIGA's Convention has been called for September 15, 1986. This committee will formulate draft policies and regulations for the Agency's day-to-day operations; it will facilitate commencement of operations once MIGA's Convention enters into force. The signatures of at least 15 developing and 5 developed countries—with a combined subscribed capital

of at least one third of MIGA's authorized capital—were required before the preparatory committee could be convened. As of August 1, 1986, 28 developing countries and 8 developed countries had signed the Convention. Their combined subscriptions represent 55 percent of MIGA's authorized capital. For more details, see Ibrahim Shihata's article in the December 1984 issue and our update in December 1985.