SUMMARY EVALUATION REPORT 1991

AID OR TRADE?

NETHERLANDS DEVELOPMENT COOPERATION

AID OR TRADE ?

An evaluation of the Programme
for Export Transactions Relevant
to Development

Operations Review Unit, June 1991

Preface

The Programme for Export Transactions Relevant to Development (or 'Mixed Credits Programme') is one of the most controversial programmes within the Development Cooperation budget. The reason for this is its inherent dualism: it aims at stimulating development processes in the recipient country and at the same time seeks to promote Dutch exports. The present study concentrates on assessing the programme's development relevance. At the start of the programme in 1979 Parliament stipulated that, when project applications are being appraised, special attention should be paid to the development objectives.

This report is an enlarged version of the summary published together with the evaluation report *Hulp of Handel?* (Aid or trade? The Hague: IOV, February 1990). The English version follows the structure of the main report.

Part One describes the evaluation methodology and provides background information regarding the historical development of the programme, its relation to other bilateral aid programmes, to other officially supported export-credit facilities in the Netherlands, and to international agreements concerning this type of aid credits.

Part Two discusses the results obtained from a desk study of the implementation of the programme. A quantitative review is given of the main characteristics of the projects implemented. Data analysed include: buyers and suppliers of the goods, regional and/or sectoral distribution, nature and scale of the transactions.

Part Three presents the major project findings of the field study in terms of effectiveness and efficiency.

Part Four evaluates the programme's appropriateness in view of the main policy issues.

In May 1990 the Minister for Development Cooperation submitted a memorandum to Parliament based on this report. The memorandum emphasized the primacy of the development objectives and tightened the criteria for project appraisal.

The Operations Review Unit (IOV), an independent unit in the Ministry of Foreign Affairs charged with evaluating Netherlands development cooperation policy and implementation, bears responsibility for this study (see Appendix II). Many individuals and institutions collaborated in producing this evaluation and I would like to thank them for their contributions.

Director IOV

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Summary

Background

The programme for Export Transactions Relevant to Development, better known as the mixed credits programme, was introduced in 1979, in order to allow Dutch industry to compete on an equal footing with foreign exporters. The programme's objective was two-fold: stimulation of development and promotion of exports. From the inception of the programme Parliament stipulated that aid goals should predominate.

To determine relevance to development project proposals were appraised in terms of financial and economic feasibility, effects on employment, on the balance of payments, on the poorer segment of the population, and the technical appropriateness of the supplied goods.

Programme strategy has been defensive. The Netherlands supports this policy to ensure that hard aid credits do not cause trade distortion at the international level. Two main principles largely determine the implementation of the programme. First, the Netherlands does not wish to initiate soft loans to recipient countries. Secondly, transactions should preferably be based on international competitive bidding.

The programme is concerned with supplying capital goods and the implementation of (civil) engineering projects. Identification and preparation of project proposals is in principle done by the private sector, but the transaction should be part of a project or programme to which the government of the recipient country has assigned high priority.

Member countries of the Organization for Economic Cooperation and Development (OECD) have agreed on guidelines for the use of hard tied aid credits. The arrangements can be divided into measures intended to promote greater discipline (e.g. a minimum concessionality level, currently set at 35%), and measures designed to bring about greater transparency (for example, prior notification of soft-loan offers so that potential competitors can match these offers).

The findings in this evaluation report are mostly based on studies conducted in Indonesia, Egypt, Costa Rica and Honduras. In total 38 transactions were evaluated in detail.

Financial arrangements

Over the past ten years (1979–1989) 136 transactions were financed, with a total value of more than Dfl. 3,000 million. Approximately half of this amount consisted of soft aid loans. In 1987 a new instrument was added to the programme for Export Transactions Relevant to Development, namely, the less-concessional loans (LCLs). LCLs differ from mixed credits in that they finance the entire foreign-currency component of the transaction up to a stipulated maximum (initially Dfl. 50 million; as of 1989 Dfl. 25 million). Partly on account of the introduction of the LCL system the funds available for commitment were increased substantially.

Since 1987 very little use has been made of the traditional mixed credits form of financing. One of the initial objectives of the programme was 'stretching of Official Development Assistance (ODA)', i.e. to generate an additional capital flow to developing countries through the combination of development funds and commercial funds. The introduction of LCLs has reduced realization of this objective sharply. Because of their high degree of concessionality and the simplicity of the instrument LCLs have been highly successful. In 1988 it became clear that because of this success the cash ceiling would be exceeded and that the amount available for 1989 was exhausted as well. For this reason it was decided in 1988 to suspend the programme, i.e. to provide no more loans until further notice and to process no new applications. The programme was reopened in 1990.

Project characteristics

Recipients of these soft loans were mostly organizations in the public sector, i.e. state enterprises and semi-government agencies. Support to the private sector has been rare. Credits are from state to state, and recipient governments were often disinclined to pass on the concessional element to private agencies.

The great majority of the transactions were directed to the economic infrastructure (power, transport, telecommunication). About two thirds of all transactions were in this sector. In this respect the Dutch programme was very similar to comparable programmes of other donors. Only 20% of the transactions directly concerned productive sectors. The main focus of the programme was on Asia, especially on Indonesia and China. Together these two countries accounted for more than 40% of the total value in loans and between 1986 and 1989 for no less than 60%. This recent concentration on the so-called spoiled markets, i.e. markets where the use of concessionary terms has become either mandatory or customary, is the more surprising because LCLs, which include no commercial component and hence no loan insurance, can be used for a wider range of countries.

Creditworthiness has played a decisive role in determining in which countries mixed credits can be used. Since 1987 LLDCs have been excluded from the programme. Over the years a general shift can be observed from the poorer to the middle-income developing countries.

Effectiveness

Financial and economic feasibility were two of the major criteria on which project appraisal was based.

The central question concerning financial feasibility was whether the project generates sufficient direct income to pay off the investment. The evaluation noted that the financial feasibility was adequate for only one quarter of the projects, and that for almost half of all activities the financial feasibility was insufficient. This low score can be explained partly in terms of the nature of the projects (service-oriented) and for another part in terms of the low utilization ratio of the goods supplied. For more than half of all installed capital goods, capacity utilization was significantly lower than planned. Under-utilization was due to a number of factors: supply of over-capacity, local-cost financing constraints, maintenance problems and lack of technical expertise. Furthermore, the exclusion of local-costs financing created a bias towards the supply of capital-intensive and import-intensive techniques. This bias was the more pronounced because of budgetary constraints of recipient governments. In general, therefore, sustainability was considered to pose a problem.

Complementary to assessment of financial feasibility, an economic analysis was carried out to determine whether the project had had a positive effect on the economy of the recipient country as a whole. This analysis paid special attention to the effects on employment and the balance of payments.

About three out of five projects were considered economically viable. This score, substantially higher than that of financial feasibility, was caused by regional or national spin-off effects from most activities in the infrastructural sector.

As an export promotion instrument the programme has been highly successful. The evaluation study concludes that in the absence of concessionary financing some 90% of the orders would have gone to foreign competitors.

Efficiency

At the inception of the programme Parliament stipulated that offers should be acceptable in terms of international competition and checked against comparable offers. Accordingly, Dutch offers should preferably be based on international competitive bidding. But this implied that it would be difficult for the donor to effect changes in project design and to get hold of all relevant project information.

In addition, the time available for handling the application was frequently very limited. Furthermore, international competitive bidding restricted appraisal in terms of development objectives. In practice the ICB procedure was followed for one third of the transactions. More than half of all transactions were arranged through direct negotiations between buyer and supplier.

As to efficiency, the evaluation report concludes that the conditions for competitive bidding were inadequate, and that the programme contains insufficient safeguards on this point.

Conclusion

On the basis of the evaluation findings the IOV concludes that the trade-promotion elements in the current programme overshadowed the development objectives. To improve the effectiveness and efficiency of the programme two policy options can be considered.

If a strictly defensive approach (international competitive bidding, non-initiation) is to be followed, appraisals should focus primarily on macro-economic factors, such as government policy, absorption capacity and efficiency of the government apparatus. Given the high degree of substitution it makes little sense to apply project-related assessment criteria when the approach is strictly defensive.

If an offensive strategy is adopted, the following policy changes are recommended:

- integration with other forms of development assistance, such as priorization of activities which have links with the bilateral aid programme;
- provision of indicative multi-year commitments (credit lines) for the main recipient countries of soft aid loans;
- replacement of marginal project screening with a comprehensive appraisal procedure.

Part One BACKGROUND

Coal terminal Tarahan, Indonesia

1. Methodology

In 1979 the Minister for Development Cooperation, in collaboration with the Ministers of Economic Affairs and Finance, initiated the mixed credits programme with the intention of stimulating development-relevant export transactions. The programme enables Dutch companies to offer capital-goods transactions on 'soft' or concessional loan conditions to developing countries.

In quantitative terms the programme is quite substantial. Within a decade about Dfl. 1500 million in aid credits was committed, of which Dfl. 1000 million was disbursed. Through these loans no less than Dfl. 3000 million worth of export transactions was generated over the past ten years.

The programme is two-pronged; it is oriented to both development processes and export stimulation. This dualism has evoked much debate. From its inception, however, it was stipulated that in project appraisals priority should be given to development objectives. Other than some individual project reviews, no evaluation of the programme had been carried out prior to 1986, when Parliament asked the Minister for Development Cooperation to have the Operations Review Unit (IOV) conduct an evaluation. The study was begun in December 1988 and the completed report (written in Dutch) was submitted to Parliament in February 1990.

1.1 Evaluation criteria

The evaluation concentrated on the programme's development objectives. The programme's second objective—stimulation of exports and creation of employment in the Netherlands—was not a major focus. To assess development relevance three levels of questions were elaborated:

a. *Effectiveness.* These questions relate to the financial and economic viability of the project and the indirect effects on the recipient country's development, particularly in relation to employment opportunities and improvement of the balance of payments.
b. *Efficiency.* Did the means achieve the ends? Would alternative means have achieved the objectives more adequately? Do the results justify costs and effort?
c. *Policy orientation.* These questions deal with the Dutch policy objectives for development cooperation in general and in particular with those of the sector

programme for industrial development. In 1984 the mixed credits programme became part of this sector programme.

1.2 Approach

Data on implementation of the mixed credits programme were gathered via desk and field studies. A separate study examined the prices paid for the goods supplied. Finally, a comparative study was made of the Dutch programme and of the experiences and policy of donors with similar programmes.

The desk study covers the entire period between the commencement of the programme and 1 June 1989. In all, 136 projects were contracted in the course of this period.

Four countries were selected for field evaluations: Indonesia, Egypt, Honduras and Costa Rica. Evaluated were 38 projects, or a quarter of all contracts. These field studies took place in April and May of 1989.

In measuring the effects of mixed credits transactions a number of problems arose. First of all there was the problem of determining the entity to be studied. As a rule the mixed credits programme finances transactions rather than projects. But the development relevance of a transaction cannot be evaluated. The assessment must be based on the project level even though in a strict sense the financial assistance is limited to the supply of certain capital goods.

A second problem has to do with the level of the effect. Every transaction can be evaluated in terms of the project's development impact (micro level) or in terms of regional or national development impact (macro level).

The third complication is the phenomenon of fungibility, i.e. the substitution effect. One is confronted with substitution if the goods would have been procured even without Dutch support. When this is the case, one needs to exercise caution in establishing causal relations between funding and the perceived effects of the transaction or project. In cases of complete substitution pertinent statements can in fact be made on the macro level only.

How do these complications affect evaluation? Basically, one can choose from three possible approaches.

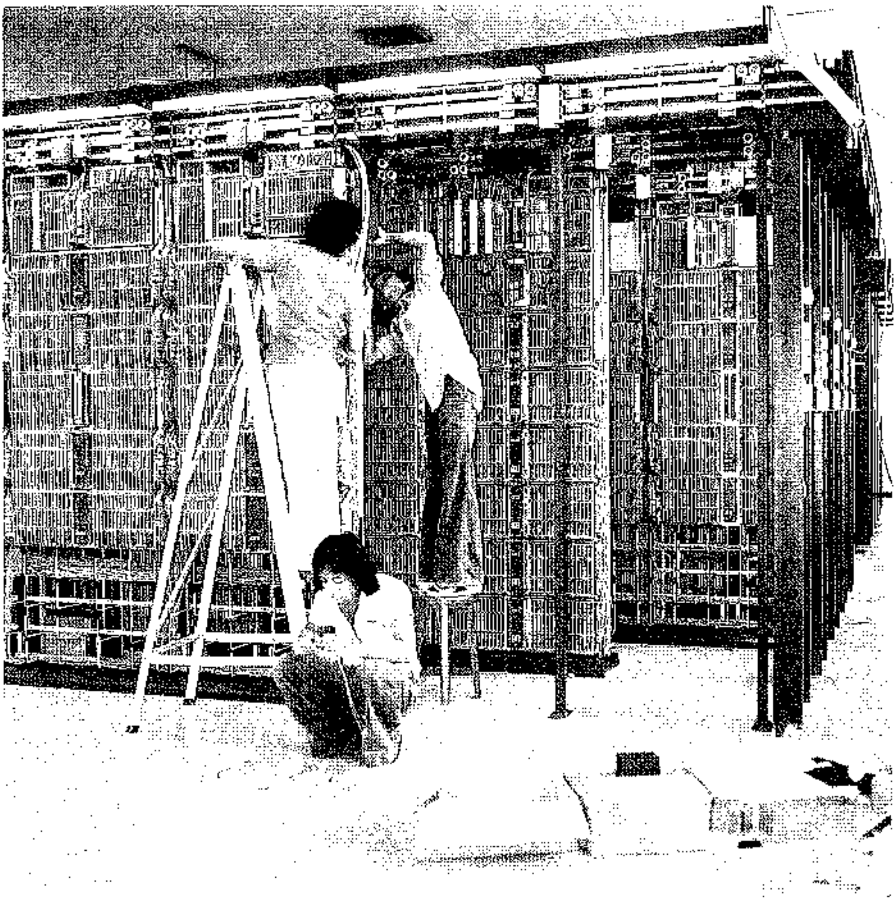
a. Attention is paid to project evaluation alone, leaving considerations about substitution out (purely micro-economic approach).
b. If complete substitution is assumed, project evaluation is not deemed meaningful. The approach is restricted to the macro-economic level. While a high degree of substitution is to be expected in the mixed credits programme due to the requirement that international tender procedures be followed, this approach overlooks the fact that the Dutch input will contain certain elements of 'additionality' as well. To begin with, transactions vary per supplier. Moreover, additional support such as technical assistance is frequently provided through

other aid programmes. The extent to which additional support is provided may differ significantly among donors.

c. Both the micro aspects and the macro aspects of the programme are recognized.

The present evaluation is based on this third approach because it reflects most closely the way the programme is set up and applied. This is why chapter 8 describes the effects of aid on both the micro and the macro level.

These effects can be measured in a number of ways. The most appropriate of these is a cost–benefit analysis. Conceptual and practical considerations, however, led to the selection of a more qualitative approach using an extensive set of criteria (see Appendix IV).



Telecommunication equipment, Indonesia

2. Policy development and organization

2.1 Objectives and priorities

In response to growing complaints from Dutch exporting companies about unfair trade practices by other donors who provide favourable financing terms, it was decided in 1979 to initiate a similar programme under the Development Cooperation budget. Three years earlier the Ministry of Economic Affairs had instituted a comparable instrument, the Matching Fund. Another consideration for introducing the mixed credits programme was the growing need for credit among developing countries. The combination of development funds and commercial funds generated an additional capital flow to developing countries, sometimes referred to as the 'stretching of ODA'.

At the inception of the mixed credits programme Parliament passed a motion (Van Dijk/Aarts 1979) stipulating that development relevance should be the major criterion in assessment of applications. The programme was launched at a time when the 'two-track' policy was pursued by Development Cooperation: next to improvement for the poorest of the poor (first track) the objective was economic self-reliance for developing countries (second track). Because of the nature of the transactions—capital goods—the programme was obviously more attuned to the track of economic self-reliance. To eliminate poverty, it was stipulated that a transaction should have no averse affect on the poor.

Development relevance was seen primarily in the context of economic self-reliance. Early in 1980 four criteria were formulated in terms of which applications ought to be appraised and which in fact operationalized the concept of economic self-reliance. First, the project had to be financially or economically viable (that is, loan and interest instalments should eventually be repaid with project-generated earnings). Secondly, the project should stimulate exports and/or substitute imports. Thirdly, its technology should suit the recipient country and it had to be ascertained that it would be put to proper use. Finally, the project ought to stimulate employment in that country.

The Van Dijk/Aarts motion further called for appraisal in terms of the recipient country's priorities.

In 1984 the mixed credits programme became part of the new sector programme for industrial development. This programme is concerned with promoting the role of the private sector in the industrialization of developing countries, where possible in cooperation with Dutch industry. In recognition of the role industry can play in the effort to expand involvement in development cooperation in non-government circles, the Netherlands has since the early 1980s devoted more attention to the private sector as the driving force behind the economy.

2.2 Modalities of implementation

From the beginning a large number of modalities of implementation were formulated concerning the nature of the transactions and their financial conditions. While the appraisal criteria remained unaltered over the years the modalities were revised repeatedly, as in 1983, when the programmes of Economic Affairs and Development Cooperation were merged, and in 1987 upon the introduction of 'less-concessional loans' (LCLs). The most recent modifications (in 1989) were prompted by excessive disbursements.

A number of the conditions related to the nature of the transactions. Funds were made available only for import of Dutch capital goods or for implementation of (civil) engineering projects. As of 1987, financing was extended to independent service contracts involving at least Dfl. 2 million, provided that they were combined with civil engineering projects or institution building. The arrangement was that, in principle, local costs are excluded. The funds are fully tied, which means that at least 70% of the manufacture or provision of the products or services to be financed should be carried out in the Netherlands, or by Dutch companies using Dutch personnel. Moreover, in terms of technology and value added, the Dutch component should constitute the essence of the exports section of the project; the foreign contribution, then, should relate only to supplies of parts or semi-manufactures which are technically or logistically essential or produced more cheaply elsewhere.

Other conditions dealt with the size of the loans and the maximum amount allocated to countries and companies. In 1989 the maximum value per transaction was reduced from Dfl. 50 million to Dfl. 25 million, whereby half of the available funds have been allocated to transactions not exceeding Dfl. 10 million. Maximum allocation to any one country or company is 20% of the total annual commitment. In 1984 it was decided that mixed credits funds be used for Programme, Region and Sector countries only (see Appendix V), and in 1987 this restriction further specified that preference be given to sectors receiving priority in the regular bilateral programme.

Particularly important for the financial terms are the international agreements (OECD) and the principle of non-matching. As of 1988, the minimum grant element for this type of aid credits became 35%. Non-matching means that these credits cannot be used to match the financial terms offered by other donors. In principle, the mixed credits programme's terms of finance are fixed, although the type of credit offered varies with the nature of the project. Loans for infrastructural projects generally have longer maturity than loans for capital goods; the grant element, however, remains the same.

The mixed credits programme provides for four types of loans:
- 30-year maturity, including an 8-year grace period, 2.5% interest rate (mixed credit);
- 25-year maturity, including a 7-year grace period, 3.5% interest rate (LCL);
- 20-year maturity, including a 7-year grace period, 3% interest rate (LCL);
- 15-year maturity, including a 7-year grace period, 2.5% interest rate (LCL).

The repayment capacity of the developing country is a conditional factor for the use of aid credits. Countries which are unlikely to be able to meet the obligations do not qualify. Accordingly, in 1987 it was decided to exclude LLDCs. Currently the programme is fully open to thirteen countries[1] and open with restrictions (to a maximum of Dfl. 50 million) to nine countries.[2]

2.3 Strategy and organization

In response to policies of other donors, the mixed credits programme was set up primarily to enable Dutch industry to compete on an equal footing. A defensive strategy was adopted, i.e. the Netherlands does not take the initiative in offering soft terms. Consequently, the principle of non-initiation is adhered to in project appraisal. The stipulated preference for proceeding in accordance with international competitive bidding (ICB) should be seen in this light.

These principles prescribed the contours of the programme to a large degree. The ICB procedure limited the availability of project information (feasibility studies in particular) and precluded donor and supplier involvement in project preparation. In view of international competition price control was considered unnecessary. The ICB procedure required quick decisions and, hence, prompted marginal appraisals.

The mixed credits programme is implemented under the joint responsibility of the Ministries of Foreign Affairs, Economic Affairs and Finance; primary responsibility rests with the Minister for Development Cooperation. The Mixed Credits Committee, an inter-departmental committee of officials from the three Ministries, was appointed upon commencement of the programme. During the initial stages this committee dealt with matters of policy and with applications for projects.

To accelerate application processing a special 'executive' committee was created in 1981 to handle project applications, to advise on policy and to submit proposals

[1] The programme is fully open to Chile, China, Colombia, India, Indonesia, Kenya, Mauritius, Pakistan, Sri Lanka, Swaziland, Thailand, Tunisia, Turkey.

[2] The programme is open with restrictions to: Belize, Bolivia, Ecuador, Ghana, Jordan, Morocco, Philippines, Senegal, Zimbabwe.

to the Mixed Credits Committee. The Mixed Credits Committee is chaired by the Directorate General for International Cooperation (DGIS); the 'executive' committee is led by Economic Affairs.

In addition, a separate bureau in DGIS plays a key role in programme implementation: applications are submitted to it, appraised and processed. Its task is essentially a coordinating one and includes (preliminary) consultations with applying companies, information-gathering for appraisal purposes, the organization of missions and preparation of project proposals for the 'executive' committee. Moreover, the bureau monitors project implementation (companies are required to submit quarterly reports) and carries out financial registration and programme administration.

Appraisal of project requests is based mainly on information from companies, country desks within the Ministry, embassies and international sources. Because of the high degree of contracting out (identification, preparation, negotiation, contracting and implementation are fully contracted out), the bureau is relatively small. At present it consists of three staff members.

Basically, the identification of projects rests with exporting companies. A detailed application form must be completed and copies of the bid and of the tender documents have to be submitted. When an application is approved the Dutch embassy in the country concerned is instructed to write a 'letter of intent' to the recipient government. The letter specifies the terms of loan financing and the termination date of the offer's validity (though extension might be granted). In 1989 it was decided to limit validity to twelve months. The recipient country must confirm acceptance of the offer by way of a 'letter of acceptance'.

Once an application is approved the company can begin negotiations or participate in the tender. If the Dutch company loses the tender the commitment is withdrawn. A loan offer comes into effect as soon as the contract between supplier and customer is signed. In addition, the recipient country must sign a loan agreement. The necessary arrangements are made by the Netherlands Investment Bank for Developing Countries (NIO).

3. The Dutch context

3.1 Capital-goods sector

The capital-goods industry plays an important role in the Dutch economy in general and in exports in particular. This sector accounts for almost 10% of Dutch GNP and for more than 30% of Dutch industrial employment. This sector involves highly skilled jobs and a relatively high labour intensity. Further, this branch of industry has an important spin-off effect on other industrial suppliers and services. The Ministry of Economic Affairs considers the capital-goods industry as the technological backbone of the Dutch economy and exports.

The significance of Dutch capital-goods exports in comparison with other countries can be presented in various ways. The capital-goods exports amount to about 20% of total Dutch exports. In other countries the relative importance is much higher: Germany almost 50%, France 35%, Japan 67%, and the United States 48%. Capital-goods exports from the Netherlands in relation to GNP, however, score much higher. The contribution to GNP in most of the industrial countries is substantially lower than in the Netherlands.

TABLE 1 **DUTCH EXPORTS, 1981–1988**
(in Dfl. 1,000 million)

	1981	1983	1985	1987	1988
Total exports (1)	170.8	189.7	225.1	187.6	203.7
Capital goods (2)	27.8	31.3	39.4	40.3	46.0
(2) as percentage of (1)	16.3%	16.5%	17.5%	21.5%	22.6%
Exports of capital goods to developing countries (3)	6.1	5.9	5.9	5.2	5.5
(3) as percentage of (2)	21.8%	19.0%	15.0%	13.0%	12.0%

In recent years the share of Dutch capital-goods exports to developing countries has been declining. This is true also for other exporting countries. Table 1 shows that from 1981 to 1988 the share of Dutch capital-goods exports to developing countries dropped from 21.8% to 12.0%. The lag was largely due to the debt crisis in major parts of the Third World, to falling world-market prices for raw materials, and to the reluctance of the banks to extend new loans to certain developing countries. An exception to this pattern have been exports to newly industrializing countries (NICs) in Southeast Asia: South Korea, Taiwan, Singapore and Hong Kong, whose share in the total of exported capital goods has risen sharply. In fact, Dutch exports of capital goods to developing countries compare favourably with that of other countries. The Dutch share in this shrinking market has grown somewhat over the past years: from 1.4% (1985) to 1.7% (1987) of the total capital-goods exports of OECD countries. In absolute terms, too, Dutch export of capital goods to developing countries seems to be growing again. Other European countries, France, Italy and the United Kingdom for example, showed no upward trend in 1987. This applied also in West Germany, where capital-goods exports play a far more dominant role in the economy than they do in the Netherlands.

3.2 Export-financing facilities

In exports of capital goods the unit value is often very high, and financing is one of the most important means of competition. This has been the case especially in trade with developing countries and in some sectors of industry. In many industrial countries the state gradually became involved in the financing of export credits, and began to support the export of certain capital goods.

The Ministries of Economic Affairs and Finance have a number of programmes which support Dutch exports of capital goods. Economic Affairs, for instance, has its Export Finance Facility (EFF), formerly known as the Matching Fund. This programme enables Netherlands exporters and their bankers to benefit on the same level as their foreign competitors from official support to reduce financing costs. Within the EFF two features may be distinguished: an interest-support scheme and a matching system.

a. The interest-support scheme operates within the framework of the OECD Arrangement. Under the rules of this scheme, the Dutch exporter has to prove that he has foreign competition which is receiving official financing support on Arrangement terms.
b. The matching system allows Dutch exporters, in the event of proven foreign competition at lower than Arrangement terms, to offer export credits on similar terms. This scheme may be used for the financing of mixed credits.

The costs of the EFF are paid out of the Economic Affairs budget. In 1988 approximately Dfl. 30 million was available. Interest subsidies will be given to export credits on a matching basis only; proof of foreign competition is a prerequisite for support. Only credits exceeding two years are eligible. As a rule, the transaction involved must have a Dutch content of more than 70%. The financing to be supported must be in Dutch guilders or in the same currency as offered by the competitor.

The major differences between this Export Finance Facility and the mixed credits programme are that (1) the EFF applies the principle of matching, whereby the exporter provides evidence of competition distortion; (2) support consists of an interest subsidy to the exporter; (3) the subsidy is limited to one third of the export share of the order (the mixed credits programme has a minimum of 35%), and a maximum of Dfl. 7.5 million. Table 2 summarizes the EFF turnover since 1984.

TABLE 2 EXPORT FINANCE FACILITY, 1984–1989
(in Dfl. million)

	1984	1985	1986	1987	1988	1989*
Applications	4	1	7	11	54	49
Commitments	2	–	7	7	108.1	31.9
Disbursements	20.1	0	12.7	32.6	32	
Budget	157.3	111.5	132.8	100	120	120.5

*Per 31 August 1989; disbursements 1989 not finalized.

In practice there is a degree of exchangeability between the EFF and the mixed credits programme, as is evident from the fact that while the mixed credits programme was suspended a number of projects have been realized with EFF financing. This suggests that less-concessionary financing may well be acceptable, and that companies seeking orders turn to Development Cooperation too quickly.

Another instrument for export promotion is that of export credit guarantees. Export credit guarantees/insurance normally cover both political and commercial risk. In the Netherlands export credit insurance is provided by the Nederlandsche Credietverzekering Maatschappij (NCM). This is a private company owned by several Dutch banks and seventeen insurance companies. NCM itself insures commercial risks and re-insures with the Dutch government non-commercial risks and also medium-term and long-term commercial risks which neither it nor its private re-insurers will accept. As the agreement with the Dutch government is based on re-insurance, NCM handles all matters relating to credit insurance, including the processing and payment of claims.

Cooperation between the government and NCM is based on the principle that commercial risks are normally covered by NCM and private insurers. Non-commercial risks are covered by the government via re-insurance. The following risks are covered by the government: political risks (including transfer risks), payment risks attached to transactions with governmental buyers, protracted private buyer default risks and foreign exchange risks.

Between 1982 and 1987 an average of Dfl. 36,000 million annually was covered by NCM. Export credit insurance was cost-effective up to 1983. Since then, the economic situation in many greatly indebted developing countries deteriorated so much that insured risks proved too high. In spite of a number of measures, the cumulative deficit of Dfl. 300 million in 1983 will rise to about Dfl. 3,500 million by 1992.

3.3 Bilateral aid programme

The mixed credits programme can be compared with other aid programmes, especially the regular bilateral programme. This comparison focuses mainly on the following characteristics: type of aid, aid procedures, financial terms and sector distribution.

Type of aid

Since the economic recession of the early 1980s, attention has shifted from expansion of production capacity to rehabilitation and sustainability of existing capacity, which meant that the financing of recurrent and local costs became an increasingly important element of project aid financing. While the mixed credits programme mainly finances new investments, the regular bilateral programme places increasing emphasis on import support (programme aid) to maintain existing production capacity. At present nearly 50% of the bilateral programme is programme aid and almost 20% of all bilateral aid is spent locally. The mixed credits programme in principle rules out local-cost financing.

In line with international convention, the Netherlands distinguished between technical aid and financial aid. Technical aid consisted of the transfer of knowledge, i.e. making expertise available and providing grants for training courses. In the case of financial aid the emphasis was primarily on the transfer of capital. The difference in the aims of the two forms of aid was reflected in the implementation procedures followed: either the financial aid procedure or the technical aid procedure. The next paragraph discusses the distinction between the two procedures.

In recent years the link between the purpose of the aid (to supply capital or knowledge) and the implementation procedure has gradually weakened. Human resources development is considered an important element in all development activities. About half of the bilateral aid funds in 1988 were used for technical cooperation. The mixed credits programme, in contrast, is still mainly focused on the transfer of capital and hence follows the traditional financial aid formula.

Aid procedures

Various measures were taken during the last few years as a result of the increasing interest in improving the quality of aid. These include greater concentration on programmes and on particular countries and regions, a more systematic approach to the project cycle, delegation of more responsibilities to the field, increased contracting out of project planning and implementation and, hence, greater use of external expertise. With a view to improving project appraisal, more systematic cost–benefit analyses are being applied to the financial and economic aspects of projects and to the social dimension. A high-level project committee to appraise all projects costing more than US$ 2.5 million was established at the Ministry. Such centralized decision-making on commitments was expected to prompt consistency of policy.

Procurement procedures differ according to whether the recipient country or the Netherlands is primarily responsible for procurement. If financial aid is provided the recipient country has primary responsibility. In this case the Development Assistance Committee (DAC) guidelines for procurement apply: the recipient country draws up the tender specifications, issues the invitations to tender and awards the contract. The guidelines call for international competitive bidding. The Netherlands is primarily responsible for disbursement of technical aid. In recent years the distinction between the two categories has become less clear and various Dutch organizations have been involved in the procurement of both goods and services, in spite of the fact that they were being paid through financial aid arrangements.

There is a significant difference between *de jure* and *de facto* tying of aid. About 10% of Dutch bilateral aid was provided in tied form and 44% in untied form in 1988. The rest of the aid was partially untied. In the latter case Dutch development funds can be spent in the recipient country or in another developing country.

TABLE 3 LOCATION OF PROCUREMENT OF DUTCH BILATERAL AID
(in percentages)

Location	1986	1987	1988
Netherlands	62	52	52
Recipient country	19	17	19
Other developing countries	16	26	24
Industrialized countries	3	5	5
Total	100	100	100

Table 3 indicates that the actual procurement in the Netherlands is still significant, roughly 50%, in spite of the fact that only 10% of Dutch bilateral aid is completely tied.

Financial terms

Of the total bilateral Dutch ODA (US$ 1,700 million in 1988) about 80% was provided in the form of grants and less than 20% as loans. Loans in the framework of the bilateral aid programme have a maturity of thirty years including an 8-year grace period, and bear a 2.5% interest rate.

All funding provided to the least developed countries with which the Netherlands has development cooperation relationships has consisted of grants as part of the regular aid programme. Over the past few years bilateral loans have been provided only to India and Indonesia.

In India and Indonesia 'experiments' were carried out within the regular bilateral aid programme which combined concessionary loans and commercial loans. The main purpose of this was to increase the volume of credits for certain sectors for which less-concessional financing was needed. Such credits under the regular bilateral programme were primarily used for the water carriage sector. The main difference with the mixed credits programme is that in the bilateral combined credits technical assistance and local-cost financing are usually an integral part of the financial package.

Geographical and sectoral distribution

Geographically, bilateral aid is concentrated mainly in Asia and Africa, which receive 40% and 45% respectively. The remaining 15% is earmarked for Latin America. More than half of the bilateral aid goes to ten so-called programme countries. India and Indonesia receive the largest amounts of Dutch bilateral aid. In 1988, net ODA disbursements to these countries totalled US$ 115.2 million and US$ 156.2 million respectively. Other important recipients of Dutch bilateral aid are Pakistan, Bangladesh, Tanzania, Kenya, Sudan and Egypt. In addition, regional programmes exist with Southern Africa, the Sahel, the Andes and Central America.

About 25% of bilateral aid is channelled to the least developed countries; low-income countries receive almost 70% of bilateral ODA. The balance was equally divided over lower middle-income countries and upper middle-income countries. The Dutch policy is basically designed to help IDA-eligible countries.

In the bilateral programme the emphasis is on agriculture and social infrastructure (water supply, health and education). More than half of the regular bilateral aid goes to these sectors. Less than a fifth goes to improvement of the economic infrastructure, the sector to which mixed credits are directed.

4. The international context

4.1 International regulations

Towards the end of the 1960s the increasing use of concessional export credits in international trade led to extensive discussions in various international fora as to how to prevent an export-credit race in which exporting countries compete on the basis of who grants the most favourable financing terms, rather than on the basis of who provides the highest quality and the best service for the lowest price. In 1978 this resulted in an agreement among the member countries of the Organization for Economic Cooperation and Development (OECD), the Arrangement or Guidelines for Officially Supported Export Credits, known also as the Arrangement or the Consensus. The Consensus set limits on the terms and conditions for export credits which are officially supported.

The Consensus included a separate agreement on the application of tied or partially untied aid financing: that is to say, credits or grants wholly or in part financed via public funds for development purposes, and tied to purchases from the donor and from most developing countries. A number of governments combine such development aid with export credits to create mixed credits or soft loan facilities.

In 1983 guidelines were drawn up also by the Development Assistance Committee (DAC) on the use of aid funds in conjunction with export credits. The DAC Guiding Principles may be regarded as supplementing the Consensus, especially in relation to the quality of the aid.

Both the OECD and DAC guidelines on tied aid credits were revised several times since they came into force. Decisions pertaining to the rules and practice of the Arrangement were reached by consensus; hence, revisions to the Arrangement are usually the outcome of a long process of deliberation.

The aim of both schemes is to prevent distortion in trade and aid. In broad terms, the arrangements made to counter trade-distorting effects may be divided into measures to promote greater discipline and measures designed to bring about greater transparency.

Greater discipline has primarily been achieved by raising the concessionality level or cost of tied aid credits. The increased cost would defer the use of such credits as trade-promotion devices and sharpen the distinction between legitimate development assistance and export financing.

Since 1988 the minimum concessionality level for tied aid credits was increased to 50% for least-developed countries (LLDCs) and 35% for all other developing countries. In the course of the past ten years the concessionality level was increased on a number of occasions. Prior to the establishment of the formal arrangement, officially supported tied aid credits were extended on terms which provided concessionality levels of as low as 15%. This practice continued until October 1981, when it was agreed to raise the minimum concessionality level to 25%.

In addition to raising the concessionality level it was decided under the Consensus of 1987 that the method for calculating the concessionality level would be changed to remove most of the advantage enjoyed in the past by low interest rate countries. Since 1969, the OECD has used loans with interest rates of 10% as the standard for the concessionality level, ignoring the different interest rate characteristics of different currencies. Each currency will now have its own discount rate, its own yardstick—the 'differentiated discount rate' or DDR. In the case of the Netherlands, with a commercial interest rate of 7 to 8%, this meant that a greater effort had to be made than under the old formula to achieve the minimum concessionality level. The concessionality of Dutch aid credits according to the old formula stood at almost 50% at the end of the 1980s. Moreover, in 1987 it was agreed to calculate the concessionality level on the basis of the Berne Union starting point (delivery date) and no longer to use the commitment date.

The DAC and OECD formulas for calculating the concessionality level are not identical. The DAC still bases the calculation on a fixed discount rate of 10%. To express the difference between the two methods the DAC uses the term 'grant element', whereas the OECD speaks of 'concessionality level'.

Next to increasing discipline, another way of countering trade-distorting effects of export credits is to enlarge transparency. This can be achieved by means of extensive notification and matching procedures. Under the Consensus it is agreed to apply the procedure of prior notification where a participant intends to provide or support tied or partially untied aid financing with a concessionality level of 50% or less. The prime aim of this system is to facilitate matching orders by competing exporting countries.

The DAC Guiding Principles are of particular importance for ensuring the development relevance and for avoiding aid distortions. To ensure that the transactions have a high developmental priority, the DAC Guiding Principles stipulate that the project should be part of investment and public expenditure programmes already approved by the central financial and planning authorities of the recipient country.

The main consideration of the DAC guidelines, however, is to ensure the greatest possible transparency with regard to this type of financial assistance. In order to ensure full transparency, each member has to establish a system of contact points in their administration. These contact points must respond fully and promptly to requests for information by other members In addition, the DAC members agreed to conduct thorough ex-post evaluations of representative selections of projects and programmes, and to make the results of these evaluations available to the regular DAC-associated financing reviews. Moreover, a number of statistical reporting requirements have been agreed upon, such as notification within two months of the signing date, specifying amounts, financial terms, tying status and purpose of the loan agreement.

The overall impression was that disciplinary arrangements were observed reasonably well, but that the effectiveness of the notification system has been viewed with a certain degree of scepticism.

A Norwegian evaluation study (1989) about mixed credits found that many notifications are ambiguous and skilfully designed to conceal important information from competitors. Some countries have been very good at delaying notification until a point in time so late as to reduce or even to exclude outside competition. One way to avoid reporting on or notification of mixed credits is to establish a bilateral credit line. While the credit lines as such may be notified, donors do not usually report each individual project so financed. Furthermore, under the Consensus one does not have to report mixed credits of less than US$ 1 million. A large number of engineering and consultancy studies fall in this category. It is well known that some donors are particularly active in providing free or highly subsidized consultancy services in order to secure project specification favouring their own suppliers.

4.2 Aid credit systems: an overview

There is a wide range of approaches among donors with regard to strategies, organization, modalities and financial arrangements of tied aid credits.

Strategies

Some countries view mixed credits as a positive instrument of graduated development cooperation. In their view, it provides additional financial flows to developing countries at a time of stagnating ODA and declining bank credits; it improves terms and enhances the developmental contribution of export credits. In contrast, other DAC countries point to the risk that mixed credits divert scarce ODA resources from development-oriented uses for poorer recipients to trade-oriented and competition-oriented purposes and projects in these countries, or from these countries to middle-income countries. Some of these countries further argue that conditional linkage of export credits and aid by donors does not in itself increase the flow of aid or export credits, given budgetary constraints on the former and the creditworthiness limits on the latter.

Those who consider mixed credits as a positive instrument usually provide these credits on a regular institutional basis, whereas others who apply a more defensive approach make these credits available on an *ad hoc* basis, mainly for matching purposes, i.e. in support of national exporters competing against foreign offers involving official financial support.

France, Italy and Japan are generally considered as donors following a more offensive approach. France is widely recognized as the originator of mixed credits. The attitude of other countries—the United Kingdom, Canada and Germany—is primarily defensive. The United States is the most outspoken opponent of mixed credits and uses them only in an attempt to force others to abandon them. With the so-called War Chest resources they have regularly made offers to undermatch competitors.

Organization

As to who takes the decision on the allocation of these types of loans, a distinction can be made between development-oriented and trade-oriented departments and Ministries. Among most donors the main responsibility for mixed credits lies with the organization or department responsible for development cooperation. This does not mean, however, that other departments are not involved in the appraisal procedure. Accordingly, in these countries proposals are often required to follow the normal aid procedures. This category includes West Germany, the United Kingdom and the United States. In the case of some donors, France, Italy and Japan, responsibility lies with organizations or committees in which trading interests are heavily represented or where there is no clear distinction between export financing and aid financing.

Modalities

To select recipient countries, most donors require that a number of criteria be met. Certain donors, Italy for example, have laid down a relatively high minimum level of per capita income for countries to which this type of aid loans can be offered, on the grounds that 100% concessional financing is no longer necessary for these countries. The Scandinavian countries use a relatively low upper limit to avoid distortion of aid funds in favour of the richer developing countries.

Another important donor criterion for the eligibility of individual countries is creditworthiness. Many countries restrict the use of mixed credits to creditworthy developing nations. In fact, all countries apply this criterion as *de facto* limitation, unless they have special guarantee schemes for less creditworthy countries. The assessment of creditworthiness, however, differs from one donor to another. In many situations governmental guarantee coverage is given for developing countries with doubtful creditworthiness. This willingness to assume the risk may be motivated by aid aims, trade considerations or other political arguments.

Most donor countries provide concessionary financing for the export of both goods and services, with emphasis on capital-goods exports. Some donors have sectoral limitations, whereas others have no priorities for special types of projects. Most countries specify that mixed credits should be given for projects which form part of the economic development plans of the recipient country; a further frequent requirement is that such projects are given priority in planning. Whether the requirements are actually meaningful is, according to the evaluation study, open to doubt. In practice it seems rather easy to meet them.

The Netherlands has an upper limit of Dfl. 25 million on the value of each project to be financed by a mixed credit. These limits on individual projects are rarely found in other countries. The bulk of the funds provided is tied to procurement in the donor country, but exceptions for local-cost financing are frequent. In the Netherlands, however, local-cost financing is excluded.

Several donors require that in principle the supplier be chosen through a process of international or national competitive bidding before financial transactions can be extended, e.g. Australia, Germany, Italy, Japan, Sweden, Switzerland, the United Kingdom and the United States. Some donors state explicitly that such funds can (only) be used for matching purposes.

Financial arrangements

Although the OECD has laid down minimum requirements regarding terms of financing, every donor is free to offer credit on more flexible or more concessional conditions, as long as undermatching is not intended. Accordingly, the terms offered by donors diverge widely on matters such as borrowing conditions (maturity, interest rate, period of grace), currency in which the loan is made available, and required minimum cash payment by the buyer.

Different forms of mixed financing may be distinguished: mixed credits, single integrated loans, loans with a grant variant and interest-support schemes.

Mixed credits consist of the post-mixing of a concessional and a commercial loan. Two separate loan contracts are drawn up. This system is in particular used by France. Recently, more and more countries, including the Netherlands, offer single loan contracts. These may consist of pre-mixing in which concessional funds are mixed with ODA and/or commercial funds. Pre-mixing is financially more attractive for some donors because a low interest rate of commercial loans is included in calculating the concessionality level, whereas in the case of a mixed credit it is set at zero. Another advantage is that only one loan contract is needed.

A special variant of mixed credits is the so-called grant variant. In this case a commercial loan is mixed with a direct grant instead of a concessional loan. The grant variant has significant advantages in terms of practical implementation when compared with other forms of mixed credits. The developing countries are not confronted with two separate financial offers, each with its own conditions. Simplicity and efficiency are further enhanced by the fact that, in contrast to concessional loans, the donor and the recipient country are spared the administration of interest and redemption payments over a period of many years. Nor does the donor run any repayment risks on the soft part of the loan. The United Kingdom is a country which uses this system.

Another form is the interest-rate subsidy variant. In that case a subsidy is provided to the supplier or bank in order to soften the financing terms. In principle this system lends itself best to maximum involvement of the private sector. Sweden, for example, applies this system.

In general these types of loans are offered in two different ways, either in the form of a credit line or as a global facility out of which concessionary loans can be made available on a case-by-case basis. Global facilities do offer certain advantages in the area of flexibility in project identification and selection. Most countries offering a credit-line facility grant the initiative for project proposal primarily to the local authorities.

4.3 Implementation

The general term for transactions involving tying of aid funds to exports and financing is 'associated financing'.

After its peak of some US$ 4,000 million in 1982, the volume of associated financing (AF) fell to about US$ 2,000 million per year, but rose again to US$ 3,500 million in 1988—8% of the total ODA. The bulk of AFs continues to be provided by France. Other important source countries are the United Kingdom, Italy, Sweden and the Netherlands.

A number of countries, Japan and Germany for example, claim that their form of financing is not mixed financing. These aid credits, however, look very similar to mixed financing. For this reason DAC also uses another delimitation to distinguish these relatively hard credits from soft credits. Hard credits are credits with a grant element below 50%. In 1988, 30% (or US$ 5,000 million) of the total DAC tied-aid commitments fell in this category. This corresponded to 10% of the total ODA. The main source countries are Italy, Japan, France, the United Kingdom, Spain and Germany, which together account for 80% of the notified aid credits (see Table 4).

It appears that the successive tightening of terms-discipline resulted in a significant part of tied aid transactions clustering just above the permissible concessionality level, and very few notifications being left with a concessionality level of less than 35%. The OECD statistics therefore seem to indicate that the measures were successful in eliminating the hardest terms. About 5% of the notified aid credits was offered to least-developed countries, and about half to low-income countries. The remainder went mostly to upper and lower middle-income countries.

TABLE 4 **NOTIFICATIONS OF AID CREDITS WITH A GRANT ELEMENT OR CONCESSIONALITY LEVEL OF LESS THAN 50%**
(in SDR 1,000 million)

Notifying countries		1987/88		1986/87		1986	
EEC-countries		**8.0**		**4.8**		**3.9**	
of which	France		1.6		0.92		0.8
	West Germany		1.0		0.9		1.1
	Italy		1.9		0.6		0.5
	Spain		1.1		0.6		0.3
	United Kingdom		1.5		0.5		0.7
	Netherlands		0.5		0.8		0.5
Efta-countires*		**0.6**		**0.4**		**0.5**	
of which	Sweden		0.2		0.1		0.1
	Austria		0.4		0.1		0.3
Other countries		**2.5**		**1.5**		**1.8**	
of which	Canada		0.4		0.4		0.8
	Japan		1.7		0.9		0.7
	United States		0		0		0.2
	Australia		0.4		0		0
Total		**11.1**		**6.7**		**6.2**	

Note: 'OECD notification data' is defined as the contract value of tied aid credit offers notified to competing countries. As many offers are unsuccessful, the actually resulting commitments typically amount to approximately one third of the offers made.

* European Free Trade Association countries.

OECD statistics further show that richer developing countries seem to have profited more from the rise in the minimum concessionality level than the poorer ones. On the one hand, the richer countries' share in total aid notifications has increased steadily and, on the other hand, the weighted average concessionality level for richer countries increased noticeably, while that for poorer countries did not show the same development.

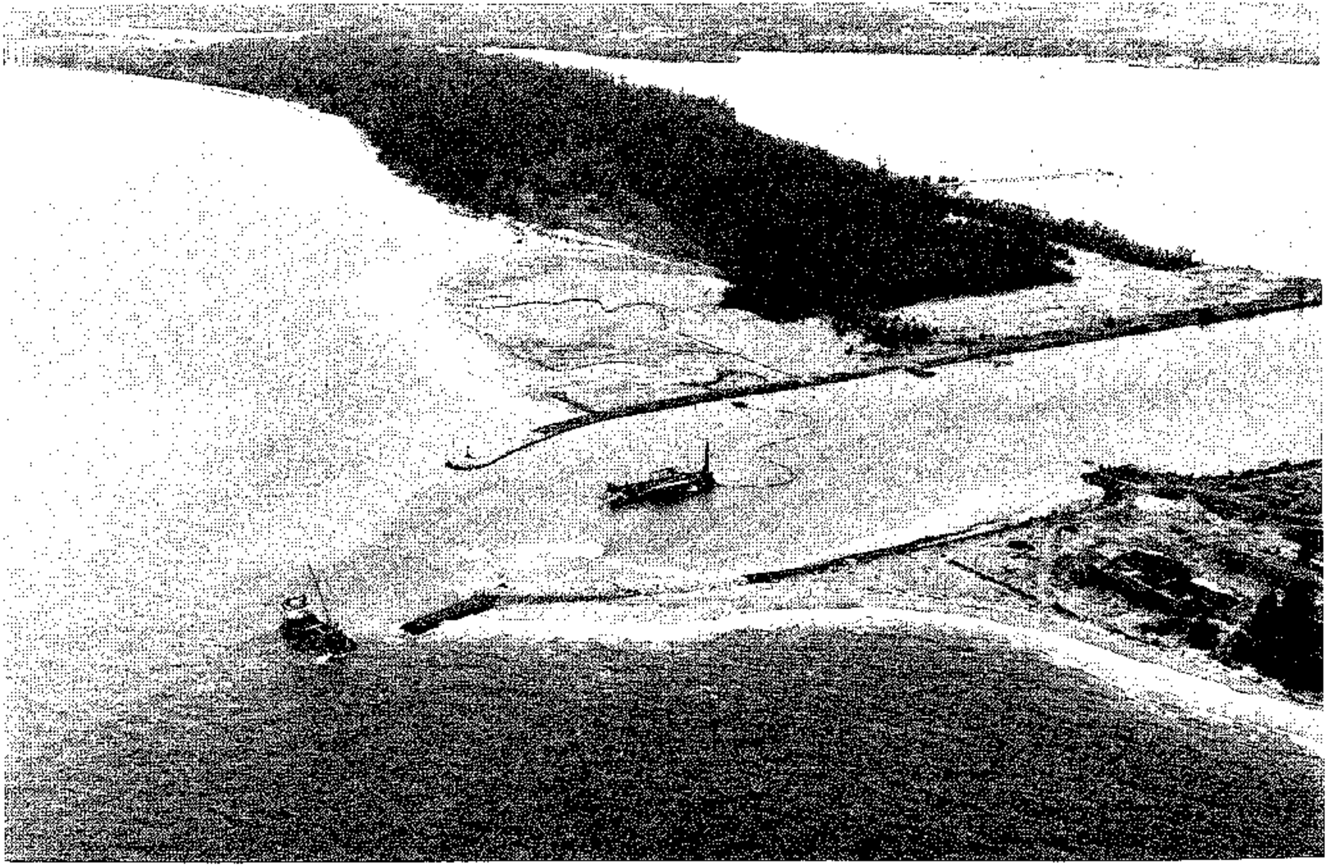
Geographically, a growing concentration on Asian markets can be seen, especially China, India and Indonesia—strategically the most important markets for the export industries of the donor countries. In 1988 these three markets accounted for approximately one third of all notifications. These markets are also referred to as 'spoiled markets', i.e. markets where the use of concessional terms for all or most sales has become either mandatory or customary.

An analysis by size of individual credits reveals that about half of all transactions are below SDR 10 million; 35% falls in the range of SDR 10–40 million, and 15% of all transactions are over SDR 40 million. In value terms the large projects capture SDR 8,000 million or some two thirds of the total.

The sectoral allocations of this type of aid credits show a concentration on economic infrastructure, most notably power, telecommunication and transport. While most donors have been willing to provide aid credits for private buyers, in practice these credits have been oriented almost exclusively to the financing of public-sector investment projects.

On the basis of recent notifications of aid credits, the OECD (1989) concluded that a disturbing trend may be materializing from the cost consequences of the new tied aid credit agreement. Aid budgets remain relatively constant, yet tied aid credit offers are in many cases expanding. It is possible that, due to the increased costs associated with the OECD Consensus, some countries are shifting grant resources away from the least-developed countries and offering tied aid credits to those middle-income countries which can absorb and repay soft loans.

Part Two: PROGRAMME IMPLEMENTATION



Harbour project Bengkulu, Indonesia

5. Management of applications

5.1 Applications: A statistical overview

In the 10-year period between the start of the programme in 1979 and 1 June 1989 almost 900 applications for financial support were received. Project applications are submitted to the DGIS by the exporters. The applicant is required to provide information regarding development relevance, the recipient organization, his own company and goods to be supplied. Offer and tender documents must be included as well.

Table 5 shows the number of applications per year in successive stages of the decision process since the programme was begun. Of the applications submitted nearly one third was rejected and over one quarter was withdrawn by the companies. Contracts were awarded to 136 of the remaining 337 approved projects, which equals 15% of the submitted applications.

TABLE 5 MIXED CREDITS APPLICATIONS

Year	Total	Withdrawn	Rejected	Total approved	In process*	Contracts not awarded	Contracts awarded
1979	101	23	45	33	–	23	10
1980	69	11	35	23	–	15	8
1981	39	1	18	20	–	13	7
1982	45	8	12	25	–	14	11
1983	93	25	14	54	1	32	21
1984	120	60	25	35	–	21	14
1985	92	27	21	44	–	36	8
1986	106	37	18	51	3	27	21
1987	116	37	42**	37	4	13	20
1988	88	24	49**	15	4	7	4
Total	869	253	279	337	12	201	124

Reference date 1 June 1989.
* Approved loans, contract not yet concluded.
** Includes projects rejected on budgetary grounds (16 in 1987; 28 in 1988).

There is a significant fluctuation per year in the number of applications submitted. The differences were for the most part due to changes in the programme's financial administration. The marked increase in applications during 1983 and 1984 resulted from the merger of the programmes of Development Cooperation and Economic Affairs (January 1983) and the introduction of an increased commitment level (mid-1984) to counter under-disbursements. In 1989, budgetary problems forced an application stop.

Table 5 further indicates a notable reduction in the number of rejected projects. While initially about half of the applications were not approved, this rate later dropped to roughly one quarter. The explanation for this is the introduction, towards the end of 1980, of an official application form and the requirement that supporting documents be submitted. Earlier project proposals were incomplete due to a lack of clear guidelines.

Finally, Table 5 makes very clear that from 1985 to 1988 the relation between contracts concluded and applications approved went from 1:3.5 to 1:2. The less-concessional loan form of financing is seen as the major cause for this development.

5.2 Project cycle

This paragraph describes the various steps of the project cycle which mixed credits proposals undergo. The following phases can be distinguished: identification, formulation, appraisal, procurement, implementation and monitoring/evaluation.

Identification

In principle project identification is done by the exporter. Netherlands embassies may also put forward project proposals, in collaboration with the recipient country. If they do, they must bear in mind the implementation capacity of the Dutch private sector. For some countries priority sectors were indicated for mixed credits. In all cases Dutch companies submit the actual proposals.

The role of the recipient country in the identification phase is secured by the principle that projects proposed for financing should have high developmental priority. Or, as the DAC states, they should be part of the investment and public expenditure programmes approved by the central financial and planning authorities of the recipient country.

In all countries where the programme is operative, official procedures exist for proposal and approval of mixed credits. The proposals are usually derived from economic development plans and are assessed in terms of national priorities. Often, however, these development plans are so general that in practice this criterion has little meaning. Moreover, it is quite possible for suppliers/donors to influence the status of projects and to get them included in the plan, in particular when projects are offered on favourable terms.

The main criticism by recipient countries addresses the *ad hoc* nature of the proposals, which makes it difficult for these countries to establish their own priorities. This is especially true for countries that have great difficulty in attracting sufficient financing. For them, the fact that this funding is additional is a decisive reason for accepting the proposal. Egypt and Indonesia have repeatedly pointed out that a credit line would obviate this problem.

Formulation

Before proceeding with procurement it is necessary to determine precisely what is needed. In the case of mixed credits the recipient country is in principle responsible for drawing up the specifications, terms of reference, and procurement of the capital goods or consultancy services. Recipient countries can be assisted by technical missions if required. This opportunity is seldom used. The impression is that the influence of exporters on the drawing up of specifications was significant, particularly when negotiation was direct.

Appraisal

Project appraisal basically rested on information provided by the applicants. Information and time available for project appraisal were usually limited. The exporter will normally only have access to that part of the information which is of relevance to his contract. The buyer will hesitate to disclose as much information about his project as he would in the case of bilateral aid activities. Moreover, these contracts are won in competition with exporters from other countries, and are negotiated on the basis of time limits set by the buyer. The content of the contracts must meet the specifications drawn up by the buyer.

Feasibility studies were available for only one quarter of all applications. An appraisal mission was sent in 15% of the total number of cases. On average, the approval procedure took 4.5 months.

The desk study revealed that the four criteria for development relevance (financial and economic viability, effects on balance of payments, employment situation and appropriate technology) played a marginal role in the appraisal process. Only a limited number of applications was explicitly rejected because of insufficient development relevance: 30% of the rejections or about 10% of all applications.

Procurement

The guiding principles for procurement for the mixed credits programme were: the recipient country draws up the tender specifications, issues the invitations to tender and awards the contract. The general rule was that goods and services should be obtained through international competitive bidding (ICB). Table 6 shows the different types of procedure for procurement applied in the mixed credits programme. Next to ICB, two other main types can be distinguished: formal selective bidding or short-listing, and direct negotiations.

TABLE 6 PROCUREMENT PROCEDURES

Procedure	Number of projects	Percentage
International competitive bidding	45	33
Formal selective bidding	21	15
Direct negotiations	70	52
Total	136	100

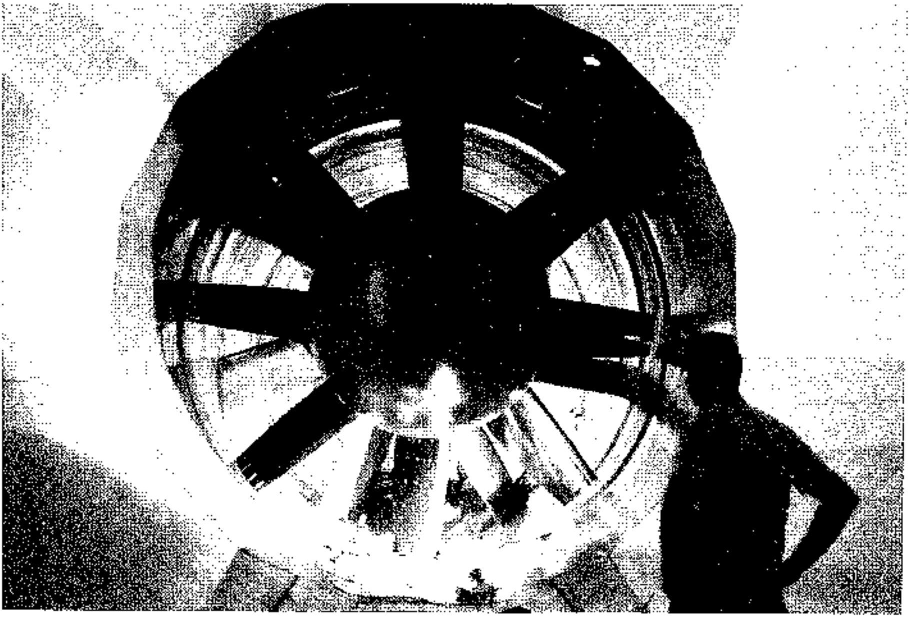
Table 6 indicates that, in contrast to the DAC Guiding Principles, only one third of the projects were awarded through ICB. More than half were awarded through direct negotiations, including a number of follow-up transactions (7) and subcontracts (1). Short-listing applied to roughly 15% of all transactions. In the majority of cases the short-list procedure followed was an invitation to a number of Dutch companies to participate in the tender. This selective bidding procedure was frequently based on the application of a firm for financial assistance to obtain an export order.

An important condition stipulated by Parliament is that exports financed through mixed credits should not be significantly more expensive than comparable goods from competing exporters, and that this price differential should in no case be greater than that under normal tied aid.

In general, international tender is the most appropriate way of securing reasonable prices. However, awarding a project activity to a company or donor also involves important factors other than price, such as quality, standardization and financing terms. In Indonesia, for example, the terms of financing are the first consideration, as is laid down in Inpres-8, the well-known presidential decree of 1984. It specifies the minimum conditions to be met by export credits: maximum interest 3.5%, maturity period 25 years minimum, and a grace period of at least 7 years. The standard Indonesian procedure for procurement is to negotiate with one supplier while others are held in reserve. Suppliers are selected on economic, financial (spread of exchange risk) and political (prevention of monopoly) factors.

In the case of direct negotiations the desk study revealed that price evaluations were conducted in exceptional cases only. On the basis of available information the report concludes that price evaluation was hardly possible and hence insufficient attention has been paid to this issue.

Apart from the contract agreement between the supplier and the buyer the loan still has to be approved by the governments of both the recipient country and the



Low-speed tunnel, Indonesia

donor. On average this took nearly twelve months, and more than two years in some countries (e.g. Egypt).

Implementation

Essentially, project implementation is taken care of by the recipient country. The Dutch company is usually responsible for the transaction only, although in certain situations the agreement with the recipient country is that the Dutch firm carries out the project on a turn-key basis.

The most common arrangement is that the recipient country provides the local infrastructure such as a building and that the Netherlands company supplies and assembles the installation. Often the local infrastructure was not ready upon delivery of the goods and shipment had to be delayed for this reason.

In principle, local costs are excluded from mixed credits financing. In many countries project implementation ran behind schedule because of insufficient local funds. In a limited number of such cases permission was given to use a small part of the loan for local expenditure.

The average time span between application and delivery was 2.5 to 3 years, of which 1.5 to 2 years were taken up by formal procedures and about one year for implementation.

Monitoring and evaluation

The implementing company is obliged to compile quarterly reports throughout the duration of the project and a final report when the project is ended. Upon completion of the project a 'certificate of completion' is issued by the recipient party to the contract. This document must be presented to the DGIS as well, together with a statement, verified by an independent Dutch accountant, of the number of man-days devoted to the project and the nature of the expenditure of the loan.

The desk study revealed that monitoring and accountant's reports were absent in the majority of cases. Only in 25% of the transactions did suppliers send progress reports, and in a mere 5% of the cases an accountant's report was received.

Evaluation studies of mixed credit activities were very rare. The IOV carried out ten project evaluations in 1983/84.

6. Project characteristics

In this chapter some of the main characteristics of the projects are examined. Who were the applicants or suppliers and who were the beneficiaries or buyers of the goods? Was there a degree of regional and sectoral concentration?

6.1 Size and nature of transactions

In principle a mixed credit loan should not exceed 10% of the available commitment ceiling for that year. Consequently, the maximum transaction sum gradually increased from Dfl. 10 million in 1979 to Dfl. 50 million in 1987. Halfway through 1987 it was decided that this maximum should be a fixed sum (Dfl. 50 million), independent of the annual commitment ceiling. To improve financial controllability this maximum per transaction was reduced to Dfl. 25 million in 1989. It was decided also that half of the cash ceiling would be allocated to transactions smaller than Dfl. 10 million. Preference for smaller transactions had been expressed in earlier policy documents. This guideline was consistent with the aim of using the programme to promote exports by smaller and medium-sized companies. Table 7 presents a distribution of the mixed credits according to size of the individual transactions.

TABLE 7 DISTRIBUTION BY SIZE OF TRANSACTION

	Number of projects						
Period	< 5 mil.	5–10 mil.	10–20 mil.	20–30 mil.	30–40 mil.	40–50 mil.	> 50 mil.
1979–83	25	19	7	3	2	2	–
1984	6	5	3	–	–	–	–
1985	3	1	4	–	–	–	–
1986	6	4	7	4	2	1	–
1987–88	4	7	9	5	1	4	2
Total	44	36	30	12	5	7	2

The table shows that the proportion of smaller transactions (< Dfl. 10 million) was substantial: some 60%. But this share is decreasing. In other words, since 1985 the average size of the loans has been increasing sharply.

Exports that can be financed under the mixed credits programme are capital goods and projects which include both capital goods and technical services (such as construction works). Independent service contracts (minimum contract size Dfl. 2 million) can qualify for mixed credits financing as well, provided they concern income-generating projects and the services are in the field of management assistance or technical design. In the evaluation study four types of transaction are distinguished: delivery of capital goods, turn-key projects, construction works and engineering studies.

Three quarters of the implemented projects concerned the supply of capital goods. About 10% of these consisted of hardware only, while for the majority (two thirds) a degree of technical assistance was included. Such assistance involved a brief training for the immediate users and/or assistance with installation start-up. Duration of the assistance varied from a few weeks to three months. Long-term technical assistance (twelve months or longer) was given in 25% of the cases.

TABLE 8 DISTRIBUTION BY TYPE OF TRANSACTION

Transaction	Loan sum (in Dfl. million)	Percentage	Number of projects
Capital goods	1,330.7	74	105
Turn-key projects	95.9	5	9
Engineering studies	4.3	1	3
Construction works	357.8	20	19
Total	1,788.7	100	136

6.2 Regional characteristics

Policy of the programme has been that funds should be distributed over a wide range of countries. When introduced in 1979, the programme was essentially applicable world-wide, though with special emphasis on the countries on which the bilateral programme was concentrated. Since 1984 the mixed credits programme has been restricted to countries in which the Dutch bilateral aid programme is operating. The Netherlands has a bilateral aid cooperation programme with approximately 50 developing countries (see Appendix V).

Other factors which have determined geographical distribution are the developing country's creditworthiness and its internal credit policy. In some developing countries, India and Thailand for instance, buyers indicated little or no interest in mixed credits, since the central government (to whom the concessional part of the loan is offered) did not pass these concessional terms on to them.

Policy relative to the creditworthiness of developing countries has played an overriding role in determining in which countries mixed credits can be used.

During the early years of the programme the policy on extending loans was lenient, in part with a view to maintaining and expanding Dutch exports to certain markets. In most developing countries, however, the debt position deteriorated sharply, so that indemnity claims and debt-rescheduling programmes increased dramatically. In response to this, Netherlands lending policy tightened, which meant that the geographical scope became severely limited.

In 1989 the programme was open without restriction to thirteen countries; for nine countries policy was restricted and/or a maximum was set. To the remaining countries the programme was closed.

As of 1987, after introduction of the less-concessional loans, the situation changed to some extent. Less-concessional loans can be used for a wider range of countries because they include no commercial component and hence no loan insurance is needed. In 1987 the programme applied *de facto* to about fifteen countries; it was anticipated that the introduction of less-concessional loan financing would enable some thirty countries to qualify for loans. Still, after less-concessional loans were introduced the repayment capacity of a country continued to be a major criterion for the provision of credits. To enlarge the flexibility of the instrument, it was decided that mixed credits could be used in countries implementing an economic recovery programme in cooperation with the World Bank or the IMF.

The loan policy outlined above caused mixed credits to shift gradually from the poorer to the richer countries. This shift has been reinforced by the fact that LLDCs have been excluded from the programme since 1987.

TABLE 9 DISTRIBUTION BY INCOME GROUP OF RECIPIENT COUNTRIES*
(in Dfl. million)

Period	LLDC		LIC		LMIC+	
1979–82	83.9	(8)	253.4	(24)	59.1	(8)
1983–85	31.8	(6)	227.4	(21)	67.0	(14)
1986–89	44.0	(3)	906.4	(44)	115.6	(8)
Total	159.7	(17)	1,387.2	(89)	241.8	(30)

* In brackets: number of projects.

Additional factors limiting geographical spread are the historical and economic relations, of the Netherlands in general and Dutch companies in particular, with specific countries. In view of this it is hardly surprising that the programme is concentrated on a limited number of countries. The main focus of the programme is on Asia, especially Indonesia and China. Together these two countries account for more than 40% of the total value of loans, and for no less than 60% between 1986 and 1989. In Africa the major recipients of mixed credits are Angola and Egypt. Latin America plays a far less important role in the programme. The two largest countries for the programme in that area, Honduras and Colombia, account for about 2% of the total.

TABLE 10 DISTRIBUTION BY REGION*
(in Dfl. million)

Period	Africa		Asia		Latin America	
1979–82	132.6	(20)	233.3	(15)	30.5	(5)
1983–85	170.4	(24)	119.4	(10)	36.4	(7)
1986–89	293.0	(20)	724.8	(32)	48.3	(3)
Total	596.0	(64)	1,077.4	(57)	115.3	(15)

* In brackets: number of projects.

6.3 Sectoral characteristics

Although the mixed credits programme is part of the sector programme for industrial development, it is not limited to industry; in principle it is open to all sectors. Table 11 shows that the great majority of transactions related to economic infrastructure (power, transport, telecommunication). About two thirds of all transactions were in this sector. In this respect the Netherlands programme has been very similar to comparable programmes of other donors. Only 20% of the transactions concerned directly productive sectors.

TABLE 11 DISTRIBUTION BY SECTOR

Sector	Mixed credits (in Dfl. million)	Percentage	Number of projects
Agriculture	190.0	11	12
Industry	211.1	12	21
Power	110.4	6	7
Transport	815.2	46	63
Telecommunication	258.9	14	14
Social infrastructure	165.3	9	17
Other	37.0	2	2
Total	1,788.7	100	136

In the economic infrastructure sector, transport was the most important subsector, accounting for nearly half of all transactions. About two thirds of all activities in the area of transport were meant for the maritime sector (dredgers, fishing boats, tugs and port facilities). Road transport (lorries) and air transport (aircraft) each received about 15%. The remainder was allocated to railway transport.

In the telecommunication sector, transactions consisted almost exclusively of telephone exchanges and cables. In the power sector mixed credits financing was mostly for power stations. Transactions in the social infrastructure sector related to water-purification plants, hospitals and equipment for schools. In the productive sectors (agriculture and industry), the projects usually concerned setting up of production lines or even the construction of completely new factories.

The sectoral distribution of the projects per continent differed. Agriculture was well represented in Africa; telecommunication was prominent in Asia.

6.4 Suppliers

In view of the mixed credits objective of stimulating Dutch exports, one condition is that at least 70% of the exported products should be of Dutch manufacture. The restriction that local costs are in principle excluded derives from this objective as well. Table 12, showing the distribution by origin, indicates that the norm of 70% was well met. Notwithstanding the exclusion of local costs, in some instances (Indonesia) approval was given to use a small percentage for this purpose.

TABLE 12 DISTRIBUTION BY ORIGIN OF PROCUREMENT

Source	Percentage
Netherlands	85
Recipient country	5
Other countries	10
Total	100

The necessary certificates of Dutch origin were provided by the Chambers of Commerce and Industry. To be certified as being of Dutch origin the last substantial transformation of the goods must have taken place in the Netherlands.

Suppliers' figures indicated that the 136 projects implemented provided 14,500 man-years of employment on the Dutch side.

Mixed credits policy aims at a more or less balanced spread over Dutch companies. In 1983 it was decided that no more than about 20% of the funds available for a given year would be allocated to a single company, and that preference would be given to smaller firms.

Nearly 70% of all mixed credits and less-concessional loans were allocated to ten Dutch manufacturers of capital goods or contractors. The remaining funds went to about fifty companies. Table 13 shows that especially the larger manufacturers benefited from the programme. While it is true that some transactions involved smaller and medium-sized firms the programme cannot be said to have effectively increased the involvement of such firms in exports. The question is,

TABLE 13 THE TEN LARGEST SUPPLIERS IN THE MIXED CREDITS PROGRAMME

Company	Number of projects	Mixed Credits (in Dfl. million)
Philips	24	398.2
IHC	8	142.9
Ballast Nedam	2	107.6
DAF	8	103.4
Damen Shipyards	15	99.8
Hollandia Kloos	3	94.7
Stork	10	86.1
Fokker	3	80.2
TNW	1	50.0
HOLEC	1	45.0
Total	75	1,207.9
As percentage of total mixed credits programme:	55%	68%

however, whether this is a realistic objective, since the risks are very great for these companies. Moreover, roughly 90% of the Dutch exports went through some 10% of all companies, most of them medium- or large-sized ones.

6.5 Buyers

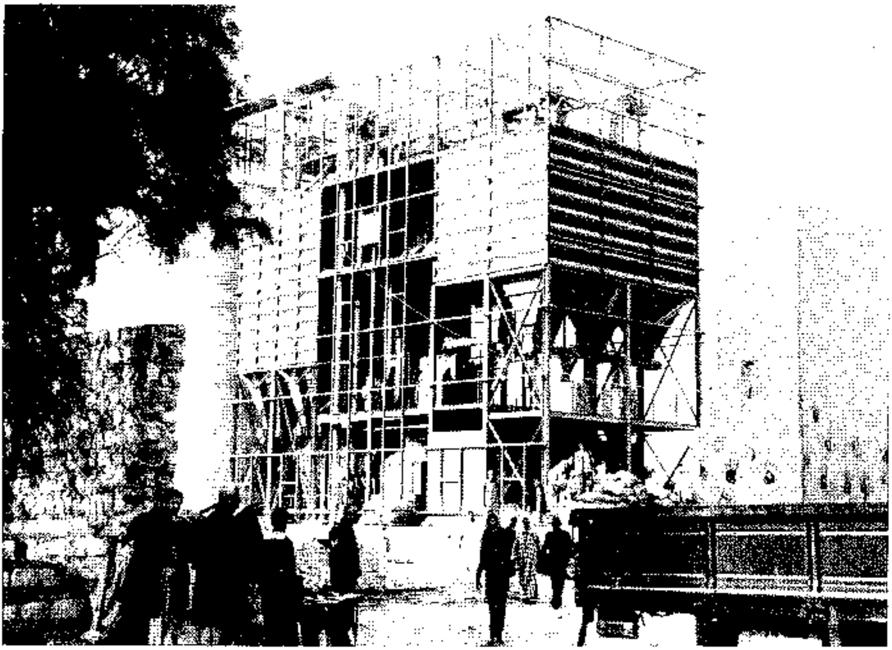
Who were the recipients of the goods? To what extent did the private sector in the developing countries benefit from the programme?

For the most part goods or services went to agencies in the public sector, that is, to state enterprises and semi-government agencies (public utility companies). Support for private companies has been rare: once in Ghana and twice in Kenya. In three instances the customer was a cooperative. In a few cases the transaction was a joint venture between the supplier and a state enterprise, which is a rather recent phenomenon applied especially in China.

Major explanation for the limited participation of the private sector is that the credits were from donor state to recipient state. Recipient governments were often disinclined to pass on the concessional element to the private sector. Conversely, in view of the tying and the very cumbersome procedures, private industry was not very interested in the loans when passed on at non-concessional, commercial terms.

TABLE 14 DISTRIBUTION BY TYPE OF BUYER

	Number of projects	Mixed credits (in Dfl. million)
Central and local government	37	642.4
Semi-government	43	457.0
State enterprises and companies with government participation	45	507.9
Private companies	3	24.4
Cooperatives	3	31.9
Joint Ventures	5	125.2
Total	136	1,788.7



Feedmill, Egypt

7. Financial management

7.1 Disbursements

Over the years the programme utilized different financial systems. From 1979 to 1982 financial arrangements were based on a Dfl. 100 million commitment ceiling. Many commitments did not result in loan contracts and, hence, in factual disbursements. Expenditure problems also arose because the rhythm of disbursements was lower than anticipated at the start of the programme, when a 10:50:40 disbursement-rate per loan was estimated over a period of three years.

In 1983 this so-called Hundred Million Programme was integrated with a comparable Dfl. 50 million programme at the Ministry of Economic Affairs. This combined programme was then included entirely in the Development Cooperation budget. At the same time a financial system based on cash ceiling rather than commitment ceiling was introduced. To prevent under-disbursement it was decided to increase the commitment ceiling to Dfl. 200 million. Loan offers are in principle valid for a period of two years. In practice, however, this principle was not applied strictly, and a number of exceptions to this rule have been noticed. After 1985 the commitment ceiling was again increased a number of times. In determining the ceiling the relationship between commitments and successful loan offers (ultimately set at a 4:1 ratio) was important. Except for 1984, the increase of the commitment level proved insufficient to prevent under-disbursement.

Table 15 reflects the development of the commitment ceiling, the budget (cash ceiling) and disbursements over time. Included also is the category 'contracts signed' because they are an index to future disbursements.

The first year which showed a structural over-disbursement of the budget was 1988; consequently, in August 1988 it was decided to suspend the programme, to provide no more loans until further notice, not to process new applications and to suspend the processing of applications already submitted. The reasons for the over-disbursement were:

1. Less-concessional loans, 100% concessional financing of the transaction sum, gave the exporter a better chance of gaining a contract than did the earlier mixed credits form of financing. In terms of 'scoring' the programme was far more successful than it appeared to be initially.

TABLE 15 FINANCIAL DATA, PROGRAMME FOR EXPORT TRANSACTIONS RELEVANT TO DEVELOPMENT, 1979–1988 *(in Dfl. million)*

Year	Commitment ceiling	Budget	Contracts signed	Disbursements
1979	100	10	)	0
1980	100	60	) 262,1	45,7
1981	100	100	)	86.8
1982	100	81	)	85.5
1983	150	103.25	87.4	43.1
1984	200	119.50	163.2	156.5
1985	400	132.50	92.0	78.6
1986	400	132.50	102.3	94.2
1987	530 (880)*	132.50	230.9	102.5
1988	840	182.20 (+51.6)	379.0	233.8
1989	0	185.50 (+60.0)	171.5**	245.5***

*In 1987 the commitment ceiling was raised from Dfl. 530 million to Dfl. 880 million.
**Reference date 1 June 1989.
***Estimated.

2. Less-concessional loan procedures are much simpler than those of mixed credits, e.g. for LCLs only one loan contract is needed. Hence the time span between commitment and cash disbursements was far less than in the case of mixed credits (on average two years).
3. Project-transaction size increased (especially in China and Indonesia).
4. International developments in loan financing. OECD countries agreed to increase the concessionality level of the loan in two stages, from 25% to 35%. This made these loans correspondingly more attractive to developing countries.

The over-disbursements in 1988 were compensated for in the Development Aid budget. Dfl. 51.6 million additional cash resources were put at the disposal of the mixed credits programme in that year. In 1989 the cash ceiling of mixed credits was raised another Dfl. 60 million. These increases were *ad hoc*, and not meant to strengthen the programme in a structural way.

7.2 Forms of Financing

Up to 1987 mixed credit was by far the most common form of financing. Part of the transaction value would consist of concessional financing and another part would come from additional sources.

It was stipulated that the concessional part per transaction should not exceed 50% of the total loan, i.e. at least one half of the total amount should be provided by commercial or other sources. In other words, the multiplier effect should be two at the minimum. This requirement was met up until 1987. It was, however, abandoned upon the introduction of the less-concessional loan form of financing. Since then, the stretching of ODA has been sharply reduced. In 1988 loans were provided through Development Aid exclusively. Table 16 reviews the major forms of co-financing used for mixed credits.

TABLE 16 DISTRIBUTION BY FORM OF CO-FINANCING*

Co-financing	Number of projects	Percentages
Commercial banks	96	70
Other bilateral donors	3	2
Multilateral agencies	5	4
Development banks (FMO/IFC)	5	4
Netherlands bilateral funds	7	5
Other official flows	4	3
No co-financing	30	22

*In some cases project financing was via multiple funding sources.

The table shows that co-financing with commercial institutions was by far the most frequent form. In 70% of the cases funding took place in combination with a commercial bank.

From 1981 onwards numerous attempts were made to co-finance multilaterally. However, no more than five multilateral co-financing projects have occurred since the inception of the programme. These are: two palm-oil projects in Honduras, a road-building project in Cameroon, a power project in Zimbabwe and a water-purification project in Nigeria.

In more than 10% of the cases other funding was provided by other official sources. The major sources were: other programmes within the aid budget, the Netherlands Finance Company for Developing Countries (FMO) and the Ministry of Economic Affairs.

In addition, in a large number of cases aid funds were provided in the preliminary stages of projects, or for technical assistance and management support after the project was handed over. Technical assistance was funded mostly via the regular bilateral programme and the programme for industrial development. In Indonesia, for example, most of the projects belonged to the sector where the regular bilateral programme is concentrated as well.

The OECD/DAC has formulated guidelines regarding the minimum concessionality level for tied aid credits. When the programme began in 1979 this minimum stood at 20%. The norm was subsequently raised: in 1982 (25%), 1987 (30%) and in 1988 (35%). Moreover, there are guidelines for the calculation of the concessionality level. Up to the middle of 1988 the method for calculating was based on a fixed discount rate of 10%. As of June 1988 the OECD Trade

Committee agreed to use differentiated discount rates, based on the commercial interest rate. For the Netherlands the rate is around 8%.

The DAC formula for calculating the concessionality level differs from that of the OECD. The DAC still bases the calculation on a fixed discount rate of 10%. To indicate the difference between the two methods, the DAC uses the term 'grant element'. Table 17 gives the average grant elements over the past ten years.

TABLE 17 AVERAGE GRANT ELEMENT*

Year	1979	80	81	82	83	84	85	86	87	88
Grant element (%)	30	26	26	33	32	28	36	34	44	44

*Unweighted averages; percentages calculated over the transaction sum.

It is evident from table 17 that the Netherlands fully met the OECD/DAC guidelines. Striking, however, is the variance in grant elements over the years. The most favourable conditions occurred in Asia. Three factors affect the grant element per transaction.

1. The income group in which the recipient falls. The minimum grant element for an LLDC is higher than that for other countries and is currently set at 50%.
2. Whether other aid credits are made available next to the mixed credits funds.
3. The ratio between the commercial and the concessional element of a transaction.

The financing terms under the programme are more or less fixed; the ratio between the two components of the loan, however, can be altered to make the loan offer more attractive.

7.3 Repayment

Per 30 June 1989, the total amount of arrears in mixed credits instalments was Dfl. 25 million. Cancellation or rescheduling of debts amounted to Dfl. 16 million.

Overdue loans made up almost 30% of the mixed credits/less-concessional loans portfolio, spread over eighteen countries and comprising 51 loans in all. Six countries were responsible for more than 85% of the arrears: Angola, Egypt, Guyana, Cameroon, Burma, Tanzania and Honduras. The arrears usually concerned loans granted in the early days of the programme (1979-1982) in support of rather sizable transactions in countries whose balance of payments was poor.

Because of the steadily increasing debt situation in most developing countries repayment capacity has been given greater consideration in application screening since 1982. From 1987 onwards three major criteria have been in use to determine creditworthiness.

TABLE 18 INSTALMENT ARREARS *(in Dfl. million)*

Region/Country		Principal*		Arrears	
Africa		432.4		15.339	
of which	Egypt		79.9		4.285
	Angola		106.4		7.279
Asia		691.7		2.956	
of which	Burma		7.5		2.650
Latin America		84.2		6.160	
of which	Guyana		7.3		3.821
	Honduras		30.5		1.044
Total		1,208.3		24.455	

Reference date 1 June 1989.
*Loans not yet in effect as per reference date excluded.

1. Basically, no new loans are granted if arrears in repayment of existing loans is structural.
2. Basically, no new loans are granted if the total debt-service ratio exceeds 30% (norm of the World Bank).
3. Insurance coverage policy of the NCM.

7.4 Capital market resources

Funds used in the context of the Development Cooperation budget derive from two sources, the government budget and funds raised at the capital market. These loans are subsequently provided at subsidized rates of interest. In 1986 it was decided that the use of capital market funds should be frozen in order to avoid a growing absorption of the aid budget by interest subsidies. At present 10% of the Netherlands Development Aid budget is financed through the capital market resources. The mixed credits programme draws on the capital market exclusively, which makes it one of the major users of these resources.

The Netherlands Investment Bank for Developing Countries (NIO), a subsidiary of the National Investment Bank (NIB), plays an important role in raising capital market funds. These funds, attracted under state guarantee, are extended by the NIO to developing countries on behalf of the Department of Development Cooperation.

These capital market loans are passed on to developing countries under conditions which are substantially 'softer' than the market terms. The difference is subsidized by DGIS. Both the interest subsidies and the loans are charged to the Development Cooperation budget. Hence, these loans burden the Development

Cooperation budget in two ways. According to DAC conditions, however, net aid only can be marked as ODA. The DAC allows the contribution of loans to ODA to be presented in two ways:

a. specification of interest subsidies, as ODA;
b. specification of net loans, as ODA.

'Net loans' are the new loans granted in a given year, less the repayments on previous loans. Sweden and the United Kingdom are examples of countries which use the first type of presentation. The Netherlands has opted, as have most other donor countries, for the second form. This means that the interest subsidy is not counted as ODA, whereas the loans are. Consequently, in the long run the contribution of these loans to the Netherlands ODA performance is zero, unless debt cancellation takes place. The advantage of this system is that the Netherlands ODA performance is brought forward in time, so that the aid norm can be met sooner.

The Minister of Development Cooperation guarantees capital and interest repayments of the loans. If developing countries default the NIO submits a claim to Development Cooperation on this basis. These claims are charged to both the Development Cooperation budget and ODA, to the latter only upon cancellation of the debt.

A major criticism of the use of capital market funds concerned the high costs of interest subsidies and the growing burden imposed on the development aid budget. An illustration may clarify this. If the borrowing rate is 8%, and the loan is passed on at 2.5% for a duration of 30 years, then the interest subsidy per Dfl. 1 million comes to Dfl. 1,0175 million.

The introduction of less-concessional loans in fact meant a substantial saving on interest subsidies, since it implied a direct link between the grant element of a loan and future interest-subsidy costs. Under the mixed credits form of financing, capital market funds were made available with a 60% grant element. Less-concessional loans (average grant element of 40%) thus yields a direct saving in interest subsidy which amounts to many tens of millions over the maturity period of the loan. If the borrowing rate is 8% and the loan is passed on at 3.5% for a period of 25 years, then the interest subsidy is Dfl. 675,000 per Dfl. 1 million.

Part Three EVALUATION RESULTS

8. Effectiveness

This chapter concerns the relevance to development of mixed credits. Assessment of relevance to development covered the following aspects:

Financial feasibility. What were the effects of the transaction on the financial position of the recipient organization?

Economic feasibility. What were the effects of the transaction from a national point of view? Special attention was given to two issues: effect on the balance of payments and effect on employment.

Social analysis. Transactions ought to have no negative effect on the poor.

Before we present the results on financial and economic feasibility the issue of substitution versus additionality is discussed in the paragraph below.

8.1 Fungibility

The phenomenon of the fungibility of aid, i.e. the issue of substitution or additionality, relates to the question of what would happen or would have happened if a project were not financed through Dutch mixed credits.

The one extreme possibility (complete additionality) is that the project would not be carried out at all, which means that financing made a net contribution to development.

The other extreme (substitution) is that the project would have been carried out regardless, either with financial assistance from other donors or with available funds. In that case the mixed credit may in fact have financed the more marginal investments (or even consumption) which aid allowed the recipient to undertake, rather than the high-priority investments it ostensibly paid for. A high degree of substitution has consequences for measuring the real effect of the investment; the factual significance of the Dutch financing would need to be measured in terms of the output generated by the marginal project. The problem is that the marginal project cannot be identified. In such cases the significance of loans was examined at the macro level. Even then additionality can be nihil. This is most likely to be the case in countries whose financial planning policy is very strict. Many countries, on the other hand, permit the list of investment projects to be expanded and are willing to make room for new production opportunities.

Another factor playing a role in determining the extent of additionality is whether funds are provided per project or in the form of a credit line. Dutch mixed credits have been made available on an individual basis, which meant that if the order did not go to a Dutch firm, aid commitments were withdrawn.

The nature of the programme, i.e. to give Dutch exporters the opportunity of competing on an equal footing with other suppliers, leads one to expect a high substitution effect. This proved correct. Although in the majority of the cases no tender procedure was followed and the transactions resulted from direct negotiations, the field study revealed that the substitution effect was very significant. That is to say, most of the transactions would have taken place anyway.

TABLE 19 FUNGIBILITY

	Number of projects	Percentage
Substitution	34	90
Additionality	4	10
Total	38	100

The field data seem to support the hypothesis that additionality was lowest in countries or markets which are economically attractive to donors and relatively strict in their policy of absorbing foreign investments. This seemed to be the case in Egypt and in Indonesia. Honduras and Costa Rica, on the other hand, had greater difficulty in attracting foreign investments and were therefore less strict in their absorption policy; accordingly, the additionality effect in these countries has been greater.

For countries where additionality was low or nearly non-existent, one may conclude that the main contribution of the mixed credits programme consisted in trade promotion. In practice, however, many projects received additional support by the Netherlands to tackle unforeseen problems during implementation or to enlarge the sustainability of the project. This support usually came from elsewhere in the aid budget and was provided in the form of grants. Almost 60% of all projects studied in the field received, in one way or another, supplementary assistance from other aid sources.

The general conclusion is that, although the aspect of fungibility was not wholly without force in certain situations, the significance was limited on account of the many problems in determining the actual level of additionality or substitution. Hence, for evaluation purposes Dutch aid was looked upon as a significant contribution to the project results.

A second issue is whether the soft terms were passed on to the project. In other words: who benefited from the Dutch aid?

Aid credit loan agreements were concluded between the recipient government and the NIO, which acted on behalf of the Dutch government. Usually, the recipient country's Ministry of Finance signed, and the agreement did not specify the terms at which the local government was required to on-lend the funds. The field study indicated that all sorts of variants were in use, ranging from grants or conversion into share capital to loans on nearly commercial terms. In general, the trend was that the better the financial viability of the organization, the harder the terms. In about three fourths of the cases the aid credits were passed on to the recipient organization.

8.2 Financial feasibility

Financial feasibility was a major criterium in appraisal of project requests. The main question concerning financial feasibility was whether the investment would generate sufficient income to cover all recurrent costs and depreciation. Financial feasibility was considered negative, for example, if the organization was unable to finance all or part of the operation and maintenance costs out of its own budget.

Table 20 presents the results of the evaluation relative to financial feasibility. The table shows that in 24% of the projects the financial feasibility was adequate, in 21% doubtful and in 55% inadequate.

TABLE 20 FINANCIAL FEASIBILITY

	Number of projects	Percentage
Adequate	9	24
Marginal/doubtful	8	21
Inadequate	21	55
Total	38	100

As an important indicator of financial feasibility was considered the capacity utilization of the goods supplied.

The field study revealed that almost 60% of the capacity utilization of the capital goods installed was inadequate. Nearly one quarter was used very inadequately or not at all. Under-utilization was due to various factors. In general a distinction can be made between financial and technological factors. Technological problems, such as the installation of excessively sophisticated equipment and the lack of local expertise for operation maintenance will be discussed in the next chapter under 'technical appropriateness'. At this point we discuss problems faced by the recipient organization in financing local or recurrent costs for the completion or continuing operation of the project.

Most recipient organizations, about four out of five buyers, were either completely or largely dependent on governmental budgetary allocations. Only a small number of recipients was financially more or less self-supporting through commercial sales or cost-recovery provisions. Public price policies and user charges ensuring cost recovery were under discussion in each of the four countries. In a number of cases cost recovery through user charges was not considered feasible or socially acceptable.

Due to severe budgetary restraints during the 1980s in the four countries studied, the subsidies made available to the implementing government agencies were frozen or reduced, with serious consequences for maintenance and viability of the projects concerned. About one half of the projects evaluated showed difficulties in achieving continuous funding for annual operating costs. Although in principle the recipient countries assumed responsibility for recurrent costs, the financing of them was becoming a chronic problem in some of them. Consequently, donors are increasingly deciding to cover in their regular programmes a portion of these costs for an extended period of time. The mixed credits programme excludes financing of local costs. In some instances other aid sources were used for recurrent-cost financing after mixed credits support ended.

8.3 Economic feasibility

In the economic analysis the spin-off effects were investigated on the regional and the national levels. As a large number of projects were in the infrastructural sector, these effects were considered of particular significance for relevance to development.

In determining the project effects on the country's economy two aspects were given special attention: the effects of the project on the balance of payments situation and on employment.

The economic analysis is based mainly on qualitative data. Given the problems in relation to measuring and weighing the individual criteria only a very general indication could be provided. The findings in this section should therefore be considered as indicative only.

Roughly three out of five projects were considered sufficiently economically viable; in the remaining cases economic viability was assessed as inadequate.

A factor causing a negative effect on economic feasibility was that mixed credits showed a relatively strong bias towards the financing of capital-intensive and import-intensive production techniques.

The study indicated that, for example, the direct number of jobs created by the investments was very limited. Moreover, the exclusion of local-cost financing and the close involvement of the exporter in the identification and preparation of the project proposal created a bias towards choices for technology or project approaches whose import-component was higher than strictly necessary. Budgetary constraints on the recipient side strengthened this tendency.

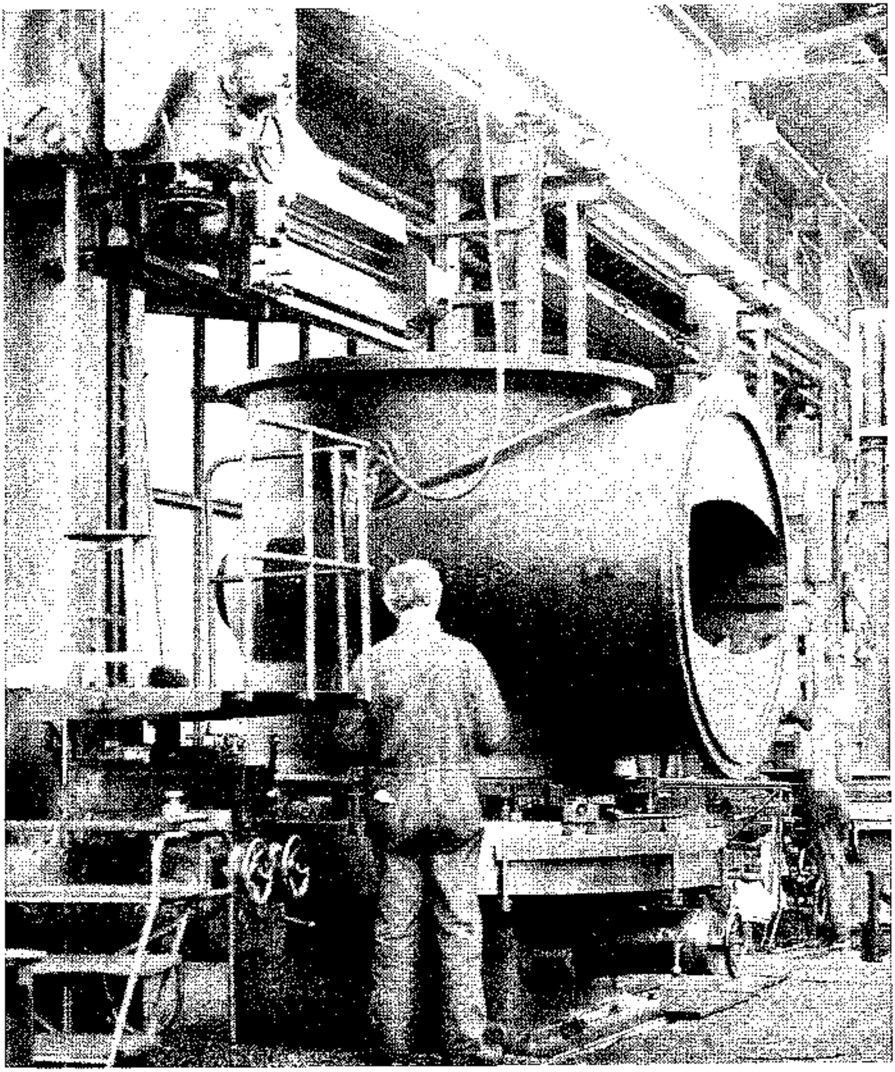
Telecommunication equipment Cengkareng, Indonesia

8.4 Social analysis

One of the main aims of Netherlands Development Cooperation is that aid should contribute to the structural elimination of poverty. In this respect projects should ultimately have a direct or indirect positive effect on the poorer segment of the population.

In the mixed credits programme the relation between project assistance and the effects on the target groups was formulated in negative terms: mixed credits activities should not have a negative impact on the poorest.

In the field reports no negative effects were recorded. A comparatively large number of projects were seen to benefit large segments of the community; this applied for example to power supply, telephone facilities, bridges, sewage works and so on. Most probably, however, the more privileged part of the population benefited more from these services and facilities than the poorest people.



Sewage pumps, Egypt

9. Efficiency

The evaluation study investigated the following issues to assess efficiency.

Project design. Were alternative solutions considered which might be more suitable to the managerial and technical capacity of the recipient country?

Project implementation. Was the transaction carried out in the most efficient way with respect to pricing, delivery time and quality of the goods?

Technical appropriateness. To what extent was the recipient country able, from a technical and managerial point of view, to continue the project once donor assistance had terminated?

9.1 Project design

In the mixed credits programme, project identification and preparation of project proposals in principle rests with the private sector. However, the transaction to be financed should be part of a project or programme to which the government of the recipient country has assigned high priority. Moreover, the mixed credits programme has always been predicated on the principle of non-initiation, that is to say, the Dutch government does not wish to be the first country to make a soft loan offer to recipients. This implies that Dutch offers should occur on the basis of international competitive bidding, in which case it would be difficult for the donor or supplier to effect substantial changes in the project design. Further, the buyer will generally not be willing to disclose more information about the project than strictly relevant to the tender procedure.

In practice, however, the majority of the transactions took place through direct negotiations. In such cases the influence of the exporter on project design and technical specification is, of course, much greater. This could well lead to delivery of overly sophisticated capital goods or to the creation of over-capacity. On the other hand, the buyer, too, may want the most advanced capital goods, often because of considerations other than economical ones.

The study indicated that for about one half of all projects evaluated in the field project design was subject to serious criticism. Criticism related to installation of over-capacity, excessively capital-intensive, bias towards import-intensive techniques. The field study revealed that bias towards import-intensive techniques was in part encouraged by the exclusion of local-cost financing from the programme. Sometimes, on account of local budgetary constraints, it was easier for buyers to receive financial support for imported goods than to purchase similar products on the local market.

9.2 Project implementation

In general, buyers were satisfied with the quality of the supplied goods. The field studies give the impression that the Dutch suppliers had made every effort within their contractual obligations to provide the most favourable conditions for long-term and trouble-free operation.

Policy stated that transactions should occur on the basis of international competitive bidding. At the start of the programme Parliament had stipulated that offers should be acceptable in terms of international competition and should be checked against comparable offers. In practice, international competitive bidding was used in a third of all transactions. Approximately half of all transactions were realized by way of direct negotiations between buyer and supplier. In a very few cases the Directorate General for International Cooperation carried out its own price analysis. A study conducted by the RIB in the framework of the present evaluation concluded that, in general, the documentation available at the DGIS did not permit effective price comparison. For those few projects for which the RIB was able to compare prices it became clear that prices differed considerably.

Average duration of project activities between the moment the application was received and the project or the transaction was completed was about three years in the four countries studied. The time span differed significantly between countries and between individual projects. Table 21 presents the time scale for the different stages of implementation.

TABLE 21 PROJECT IMPLEMENTATION TIME SCALE
(expressed in average number of months)

Country	Dutch approval	Loan agreement	First disbursement	Last disbursement
Egypt	3	22	32	42
Indonesia	5	13	20	30
Costa Rica/Honduras	3	6	18	26

Delays in project implementation were caused especially by two factors. Substantial delays in Egypt for example occurred because Parliament had to approve the loan agreements. A second factor frequently causing problems in the execution of the project was that the necessary preparatory civil works for the installation of the capital goods were not ready.

The rather lengthy incubation period seems strange in relation to the limited time available for processing mixed credits applications. The time span usually allowed for information-gathering and decision-making is much shorter than for most other forms of aid.

9.3 Technical appropriateness

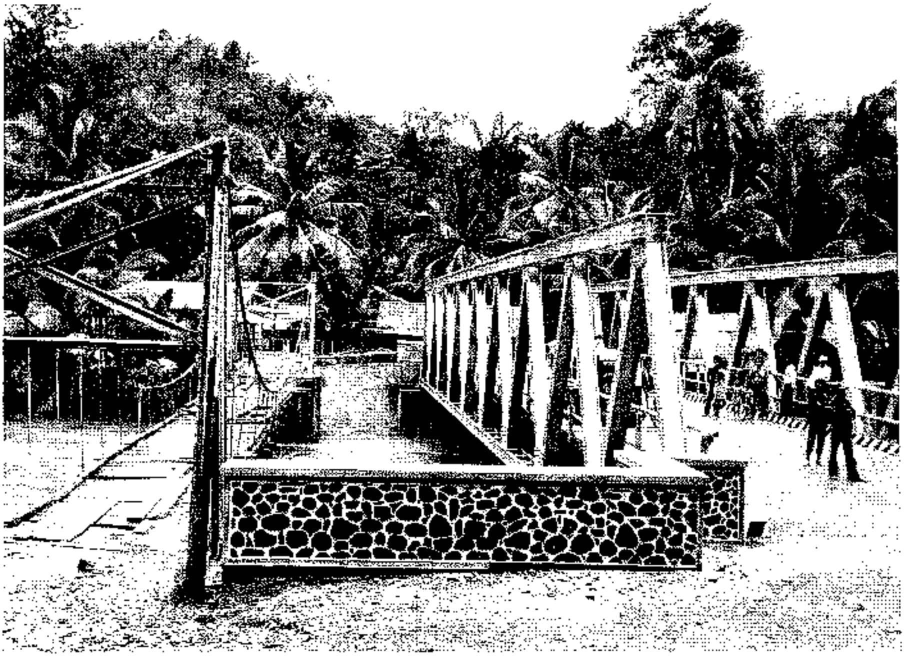
The mixed credits programme pays special attention in the appraisal procedure to technical appropriateness. With regard to technical appropriateness, the technical level of the goods supplied should be such that the goods can remain fully in use after the period immediately following delivery or project termination. Technical appropriateness, therefore, had to be viewed against the background of recent developments in the recipient country. This meant for example that, if necessary, aspects such as education and training had to be included in the submitted supply proposals or project proposals. Application screening should further extend to maintenance and other running costs. Finally, the goods or the project should be in line with the standardization pursued by the recipient country.

According to the field studies about one third of the supplied goods showed serious deficiencies in technical appropriateness, resulting from lack of training, inadequate local maintenance facilities and shortage of locally available spare parts. About 10% of all supported transactions consisted exclusively of supply of equipment. In two thirds of all transactions a limited training component of some weeks was included. In only 25% of all cases a long-term technical assistance clause was part of the contract. In practice, however, many mixed credits projects required long-term technical assistance, well beyond the completion of the transaction, even in a relatively well-organized country like Indonesia, where such assistance was required in 14 of the 20 transactions.

Although spare parts were supplied under the contract, in the majority of the transactions the proportion of the budget spent on spare parts differed significantly, both between recipient countries and type of transaction. In the final (price) negotiations the amount reserved for spare parts was often reduced. In practice it is possible for the supplier and the buyer to modify the contractual arrangements on the basis of amendments, without having to inform the financier in advance. The field study revealed that this happened frequently, not least because of the long delays. The evaluation study indicated that in only 20% of the cases the spare parts stock was convenient. For 40% of the projects the supply was limited and for another 40% it was insufficient. Lack of access to hard currency often made it very difficult for the local organization to purchase spare parts commercially.

A structural problem was the lack of local agents able to provide after-sales service. No more than 15% of the suppliers had agents of their own stationed in the recipient country. Almost half of the suppliers had no agent at all. In the remaining cases the supplier was represented by a local firm. In some of the contracts, moreover, guarantee provisions and after-sales services were not covered adequately.

Part Four: CONCLUSIONS



Road bridges, Indonesia

10. Policy issues

This chapter deals with the mixed credits programme's policy orientation. The central question is: did the present policy formula, i.e. the complex of objectives, criteria, modalities and procedures, ensure that the programme was indeed primarily aimed at relevance to development?

Development orientation of the programme was assessed in terms of a number of key policy issues. The first of these was the strategy of the programme. From the beginning the nature of the instrument was described as 'defensive'. The principle of non-initiation has always been the basis of mixed credits policy. The second issue concerned the programme's orientation to the private sector. One of the objectives is to stimulate private initiative. A third issue was the development approach of the programme. The basic principle is that the recipient country is able to absorb the supplied goods without extensive additional assistance. It is more or less assumed that the technical and financial capacity of the local organization is adequate. The last point concerned the primacy of the programme's development objectives. In this connection the discussion will be about potential areas of conflict between the two programme objectives: aid versus trade.

At the introduction of the mixed credits programme in 1979 a resolution was submitted and adopted (Van Dijk/Aarts) that the commitment of funds should be based primarily on development objectives: development criteria are the decisive factor in appraising applications. In particular the resolution stipulated the following aspects:

In the first place, there should be no distortion in the distribution of Dutch development assistance from the poorest countries to developing countries with a higher per capita income.

Secondly, the applications should have high development priority in the recipient country.

Thirdly, the Dutch offer must be acceptable in terms of international competition and should be verified against comparable offers.

10.1 Offensive versus defensive strategy

The programme strategy has been defensive in nature in order to limit the risk of trade distortion. Key elements here were the principle of non-initiation and international competitive bidding. This latter procedure, too, implies a defensive approach by the donor. The donor is hardly involved in the identification phase of the project and has but very little influence on project design. Moreover, the time available for handling mixed credits applications is frequently limited. In order not to be left out of international competition, therefore, the screening process is marginal, and concentrates mainly on establishing the priority listing of the project in the official development plan of the recipient country.

In actual practice, only one in three projects went to international competitive bidding. This had repercussions for the nature of the intervention in the developing country and the role of private industry in that process. Actually, the programme has been rather offensive in character, in the sense that the supplier identified the project, was involved in the formulation of the project proposals including the specifications of the capital goods to be supplied, and negotiated a price with the client. Since the exporter was given the opportunity to identify and prepare projects it is unrealistic to expect a passive attitude to their financing (which is what non-initiation demands). It is therefore not surprising that in two thirds of the applications the applicant said he did not know whether competitors were offering concessional financing. The conclusion is that, although exporters have in many cases taken the lead, the DGIS continued to use the defensive strategy.

10.2 Private versus public sector

A second notable pattern identified in the survey was the concentration on government organizations and semi-government agencies and the lack of emphasis on the directly productive sectors. Because the mixed credits programme is part of the sector programme for industrial development and in view of its selection criteria it was widely expected that the programme would concentrate on the directly productive sectors and that the private sector in developing countries would be an important target group. The industrial development programme is designed to promote, if possible in cooperation with Dutch industry, the role of the private sector in the industrialization of developing countries. Like other donors, the Netherlands has devoted greater attention to this programme since the mid-1980s, because both the developing countries and the industrialized countries are attaching more importance to the private sector as driving force in the economy.

The mixed credits programme, however, stipulates that the government of the recipient country must conclude or approve the loan agreement. This has caused the programme to be directed almost exclusively to government organizations, particularly in the areas of physical infrastructure and social services. In such cases the criterion of financial viability generally does not apply, while that of economic viability is very difficult to ascertain. Frequently, support was given to projects meant to create conditions for future development, and funds generated through them were not reinvested in the project, so that financial and economic analysis was almost impossible. Since project income or, as the case may be, indirect benefits could not really be measured the appraisal criteria proved inadequate.

Promotion of private initiative seems to have been limited to stimulation of Dutch private firm involvement in development aid. In a number of cases support was given through mixed credits in areas where the private sector was active as well. This can be seen as formal distortion of internal trade. So far, appraisal paid too little attention to the question whether a project is best handled by the public sector or the private sector.

10.3 Financial versus technical aid approach

The strategy generally adopted under the mixed credits programme has been the financial aid approach as pursued in the Development Cooperation programme in the 1970s, which was primarily concerned with the transfer of capital. This approach may be contrasted with the technical aid approach, where the transfer of know-how is central. Both these approaches were integrated in the bilateral aid programme as of the early 1980s. Although long-term technical assistance can in principle be financed under the mixed credits programme, in practice this has been done in a limited number of cases only. Financial reasons are the major bottleneck here. Local costs are in principle even excluded from financing.

The mixed credits programme assumes that the counterpart organization is adequately equipped to absorb the goods supplied. In practice, however, technical and financial shortcomings have frequently created problems for project implementation and utilization of the supplied capital goods. Half of the projects, for example, suffered from a lack of local funds. In certain countries (Indonesia) these problems were counteracted to some degree, as support of this kind was offered under the bilateral programme—sometimes many years after the project had been handed over. In this way the transactions have ultimately become part of a more integrated approach. This manner of financing supplementary associated activities could only be applied in countries with which the Netherlands have a regular bilateral aid programme, and where the mixed credits activity falls in the sector on which the regular bilateral programme.

10.4 Aid versus trade

The central focus of the programme has consistently been on the primacy of development objectives, which meant that development interests took priority over export interests. To what extent were the conditions laid down by Parliament, designed to avoid trade distortion, actually met?

The first guarantee demanded by Parliament was that no distortion should occur in the distribution of aid from the poorest to the richer developing countries. Statistics over the past ten years show that the orientation of the Dutch mixed credits programme gradually did shift to the middle-income developing countries. During the period 1979–82, 21% of the funds went to the LLDCs, but between 1986 and 1989 this share reduced to 4%. During the same period the share of the LICs increased from 64% to 85%—a development largely due to a decision taken in 1987 to exclude LLDCs from the mixed credits programme. In general, the fact that creditworthiness of the recipient country became a weightier consideration in appraisals probably explains why this shift in the programme's country-orientation occurred.

Recent OECD publications on hard aid credits reveal that the higher minimum concessionality level did not diminish the number of this type of loans, nor their total value. In fact, the volume of hard aid actually grew. Since aid budgets are remaining fairly uniform it seems likely that, due to higher costs attending the new Consensus arrangements, a number of countries are shifting grant resources away from the least developed countries and are offering tied aid credits to those middle-income developing countries which can absorb and repay concessionary loans.

The volume of the Netherlands mixed credits budget, too, has grown since 1987. A second instrument, that of less-concessional loans (LCLs) was added to the programme. LCLs differ from mixed credits in that LCLs can be used to finance the entire foreign currency component of a transaction, initially up to a maximum of Dfl. 50 million. Introduction of LCLs led to a significant reduction of the 'stretching' effect—generation of commercial loans for developing countries, initially one of the main objectives of the programme. Since 1987 very little use has been made of mixed credits. The countries benefiting most from LCLs were the 'spoiled markets' in Asia, i.e. China and Indonesia. About two thirds of the LCLs went to these two countries.

The second condition set by Parliament to ensure the programme's development relevance is that transactions should be part of a project or programme to which the developing country's government has assigned high priority.

Virtually every country in which the programme is active had official procedures for aid credit submission and approval. Proposals were generally derived from public investment programmes and appraised in terms of the national priorities. Often, however, these plans were so broad that in practice this criterion had little meaning and was not difficult to meet. No proposal was rejected for this reason over the past ten years.

The main criticism recipient countries voiced against the Dutch mixed credits programme in connection with this criterion is the *ad hoc* nature of the offers. The absence of choice means that the recipients are unable to weigh priorities. Under the Dutch mixed credits programme commitments for loan offers were withdrawn if the export order was given to some other foreign firm.

Thirdly, Parliament was concerned that, since this type of aid tends to be tied, recipients would be faced with high costs because the donor would often not be the least-cost supplier of the goods. Some studies indicate that tying reduces the real value of aid by about 20%.

The mixed credits programme is the only substantial programme in Netherlands Development Cooperation where funds are provided on tied conditions. Parliament therefore requested that Dutch offers should be acceptable in terms of international competition. Accordingly, Parliament expressed a preference for international competitive bidding. In practice, however, this procurement procedure was followed in only one third of the cases. More than half of all transactions were arranged through direct negotiations between buyer and supplier. Tying in combination with direct negotiations is least likely to achieve competitive pricing. Indonesia, for example, is very much aware that tied aid transactions are more expensive than untied financing and hence seeks compensation by exacting favourable financing terms.

Data on projects amenable to evaluation on pricing revealed considerable price differences, that the requirement of Dutch origin increased prices and that substantial price reductions were achieved via price analysis conducted prior to approval. The conclusion is that the conditions for competitive pricing have been inadequate and that the programme has failed to offer sufficient safeguards in this respect.

Other negative effects of the tied nature of aid frequently reported in the field were:

- tying led to a proliferation of types of equipment performing the same tasks within a given sector. This inhibited standardization, which in turn places great demands on the local staff (training), stood in the way of efficient spare-parts stocking and was generally detrimental to ongoing project management;
- exclusion of local-cost financing has occasioned bias for import-intensive and capital-intensive technology. Because of local-cost financing constraints the buyer was often forced to opt for a solution requiring a minimum of local input;
- concessional financing in conjunction with tied aid placed potential local suppliers at a competitive disadvantage because they had no access to concessionary funding facilities. The same was true for exporters in other developing countries.

As an export promotion instrument the programme has been highly successful. The evaluation study indicates that in the absence of concessionary financing some 90% of the orders would have been supplied by competitors. In the remaining cases it seems quite probable that the transactions would have been financed commercially. The desk study further showed that an estimated 85% of the goods supplied were of Dutch origin, and that the 136 transactions generated approximately 14,500 man-years of employment on the Dutch side.

These observations warrant the conclusion that the trade-promoting elements in the current programme overshadowed the development cooperation considerations.

11. Policy options

The analysis presented in the previous chapters allows us to determine how appropriate the current policy formula is for a defensive or an offensive application of the programme.

11.1 Policy formula and defensive strategy

The nature of the mixed credits instrument evoked uncertainty among those responsible for implementing the programme and for outsiders. Sometimes development relevance has been measured in terms of the effects at project level, sometimes in terms of the economic significance for the recipient country (macro-level). Policy consistency would be enhanced if the programme were designated explicitly as either an instrument for project financing or a macro instrument.

There are good arguments to look upon the programme as a macro instrument if, as was the original intention, its application is strictly defensive. When international competitive bidding takes place the supported projects are fungible by definition, and the significance of the aid cannot be measured directly in terms of the project. Further, the donor is hardly involved in the project cycle, which means that donor control at project level is minimal. Usually the buyer or his consultant will have specified most of the requirements, and the donor will find it difficult to introduce much change in this context. For his part, the buyer will not be inclined to disclose more information concerning the project than pertinent to the contract, i.e. feasibility reports will probably not be made available, nor will the recipient allow the donor to carry out preliminary studies. To this may be added that the time available for screening project applications is often very limited. The defensive approach implies the use of marginal appraisal procedures only.

If a strictly defensive approach is used, the criteria for effectiveness should be aimed primarily at the selection of countries with the greatest anticipated development impact. In such cases the donor can limit himself to the requirement that the project be endorsed by the central planning organization. The significance for the developing country of this kind of aid lies especially in the fact that the overall budget for public expenditure and investment programmes is enlarged. From a development point of view the main considerations in selecting countries, then, are the government policy (i.e. regarding the implementation of structural reforms), the absorption capacity and the efficiency of the government apparatus.

It can be concluded that, unless the mixed credits programme is considered to be a macro instrument, and is strictly so applied (for example to support structural adjustment programmes), the defensive approach must be seen primarily as an instrument for trade promotion. Moreover, when the approach is purely defensive and given the high degree of substitution, it is not meaningful from the development point of view to apply project-related assessment criteria.

11.2 Policy formula and offensive strategy

As noted, the programme has in practice been applied largely offensively, that is, exporters have played a significant part in project formulation. An offensive approach asks the donor to assess the relevance to development in the same way as is done in the bilateral programme. For a number of reasons the current policy formula is not suited for this purpose.

1. In large parts of the public sector the four criteria are not really relevant or appropriate. Next to technical appropriateness of the goods supplied, the financial and institutional sustainability is the main concern. Hence, for these sectors sustainability is a much better and more readily applicable assessment criterion.
2. Proper appraisal of priorities implies the need for policy consultations with the recipient countries on details of the programme. This means that a degree of indicative planning concerning resources to be deployed is desirable.

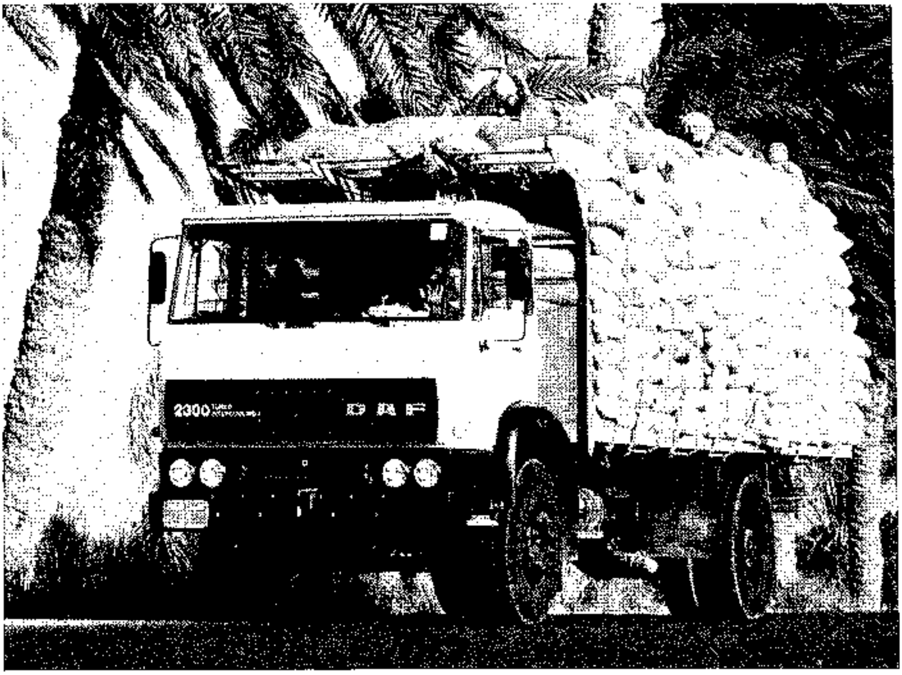
But an offensive approach requires that donor involvement goes farther than transaction funding. The strengths and weaknesses of the counterpart organization, the need for training and other technical assistance, the need for studies to determine the viability/feasibility of the project—all of these should be made explicit in advance. Capital goods can be expected to produce a high development impact only if the aid programme (or other aid sources) can provide all the necessary support.

On this basis an offensive strategy can have much greater relevance to development than a defensive strategy. A project-based approach means not mere provision of hardware. It requires examination of how the institutional capacity of the local organization can be strengthened. Analysis is needed to ascertain that the financing of local costs is assured. In short, a project-based approach should promote sustainability of project activities. The more the donor, together with suppliers and other parties, can contribute actively to getting projects off the ground, the more additional the aid will be, and the greater the significance for the developing country beyond that measurable in terms of the macro effect of the financing. In recent years project-based strategy has made progress in Indonesia, where technical assistance was provided under the bilateral programme for a substantial number of mixed credits projects.

The adoption of an offensive strategy would require the following changes:

1. The provision of indicative cash ceilings (i.e. credit lines) and regular dialogue at government level with the leading recipients of mixed credits financing. This provides a better guarantee that transactions will enjoy a high priority in the recipient country.
2. Marginal appraisal procedures should be abandoned. Next to a thorough price analysis special attention ought to be paid to sustainability. In this connection appraisal of the absorption capacity is essential.
3. Priority should go to applications that concentrate on the main activities/sectors of the bilateral aid programme. This would help overcome the problems of local-cost financing and technical appropriateness.

APPENDICES



Trucks, Egypt

Appendix I. Terms of Reference

1. Methods of evaluation

To measure effectiveness various approaches can be used. Cost-benefit analysis (CBA) is the most well known. This method has the advantage that the aggregated results are expressed in one single value. However, CBA requires that all effects must be measured in monetary terms. In the case of activities financed through mixed credits certain conceptual and practical problems made CBA almost impossible. Some of the objectives of the mixed credits programme were difficult to translate into monetary terms. This was particularly true of objectives and criteria which are related to non-economic issues such as minimization of harmful side-effects for the poorest. The linkage between inputs (transaction) and outputs, too, made for conceptual problems. In general the outputs can be measured on the level of the recipient organization only, rather than per individual transaction. Practical problems were occasioned by the degree to which statistical information was available or accessible and the amount of time needed to apply CBA.

Multi-criteria analysis is the alternative approach used here. The objectives of the mixed credits programme were operationalized in a number of target variables, i.e. the criteria. Essentially, all effects were registered according to dimensions proper to them. Data collection was primarily subjected to qualitative measurement and analysis.

2. Evaluation criteria

The criteria listed below were used for the evaluation of individual transactions. A set of questions was developed for each criterion.

Effectiveness

1. *Financial aspects*: What was the effect of the transaction on the financial position of the recipient organization?
   Sub-issues: capital costs, operating costs and maintenance costs, profitability, subsidies, pricing policy.
2. *Economic aspects*: What were the effects of the transaction from a national point of view?

Sub-issues: income effects through forward and backward linkages, employment effect, balance of payments effects, environmental effects.

3. *Social aspects*: Who were the principal beneficiaries of the project?
   Sub-issues: negative side effects on the poorest, the position of women.
4. *Fungibility*: Would the transaction have taken place anyway, without Dutch assistance?
   Sub-issues: procurement procedures, investment plans, development priorities, creditworthiness, aid credit programmes of other donors.

Efficiency

5. *Administrative procedures*: Was a marginal or elaborated appraisal procedure followed?
   Sub-issues: identification, formulation, appraisal, tendering, contracting, monitoring, evaluation.
6. *Transaction*: Was the transaction carried out in an efficient way?
   Sub-issues: price, delivery time, quality of the goods, guarantee, service provisions.
7. *Capacity utilization*: What was the rate of capacity utilization of the delivered capital goods?
   Sub-issues: implementation of the project activity, installed capacity in relation to demand.
8. *Appropriate technology*: Was the technology suited to the developmental level of the recipient country?
   Sub-issues: local skills, management, maintenance, spare parts, financial sources (foreign currency).
9. *Project design*: Were alternative solutions considered?
   Sub-issues: rehabilitation versus new capacity, labour versus a capital-intensive approach.
10. *Financing*: Would commercial financing have been possible; were concessionary terms necessary?
    Sub-issues: Who was the beneficiary (buyer or central government)? What were the terms? Did private firms competing with government institutions also have access to these concessional loans?

Policy orientation

11. *Dutch development policy*: To what extent were these transactions consistent with Netherlands aid objectives and priorities?
12. *Relevance to the Dutch economy*: To what degree did these transactions contribute to the development of long-term contact between the Dutch company or industry involved and the recipient country?
13. *Recipient country*: To what extent were the transactions consistent with the recipient country's overall development strategy and planning? Was the transaction financed part of a project or programme which is given high priority by the government of that country?

14. *International regulations*: To what extent were OECD and DAC guiding principles and regulations applied?

3. Approach

This evaluation study used various data-collection instruments. These included documentation review, interviews, questionnaires, site visits. As part of this evaluation study six sub-studies were carried out.

In the initial phase a desk study was conducted of all applications and all projects implemented since the inception of the programme in 1979. An extensive statistical analysis was made of all 136 projects for which a contract was concluded.

Three regions were selected for field surveys: Indonesia, Egypt and Costa Rica/ Honduras. In all, 38 projects in the field were examined. The field studies were carried out by teams of independent experts (consultancy bureaus and universities). Three separate mission reports were published. The field surveys were conducted in April and May of 1989. Each country study took about a month. For the field study a questionnaire was developed containing some 100 items, structured according to the main evaluation criteria listed above (under 2).

A separate price-evaluation study was carried out by the Government Purchasing Office (RIB), and was based on contract documents. Sixteen projects were so evaluated. Excluded from this study were: engineering studies, civil works and contracts realized through international competitive bidding.

A sixth study made an inventory of mixed credits programmes of other donors. A large number of donors were interviewed and study was made of OECD and DAC publications about policies and practices of associated financing and tied aid. Evaluation material concerning mixed credits is rather scarce. NORAD alone has undertaken a comparable study. Recently the US has published a desk study on the use of mixed credits by six donors: Canada, Germany, France, Italy, Japan and the United Kingdom.

The results of these field studies and desk studies were summarized in a final report prepared by the IOV. For the study as a whole a reference group was established to advise the IOV on evaluation methodology and to comment on field and desk studies and on the summary report. This reference group was composed of persons from the Department of Development Cooperation, the Ministry of Economic Affairs and independent experts (research institutions and universities).

4. Project selection

The selection of the countries for the field study was based on the following criteria:
- geographical distribution representing each of the three continents;
- the volume of the programme.

On the basis of these criteria, four countries were selected: Indonesia, Egypt and Honduras/Costa Rica. The field study extended to all projects for which a contract was concluded in these countries—in total 38 projects were visited.

Indonesia

1. One dredging vessel (capacity 2,900 m3).
   Total transaction amount: Dfl. 41,590,000.
   Aid credit: Dfl. 41,590,000.
   Financial terms: maturity 15 years; grace period 3 years; interest 2.5%.
   Recipient: Perum Pengerukan (Pepen) state dredging company.
   Application date: 1979.
   Contract date: 1980.
   Delivery: 1980.
   Procurement procedure: direct negotiations.

2. Two dredging vessels (capacity 1,000 m^3 and 2,900 m^3).
   Total transaction amount: Dfl. 81,409,250.
   Aid credit: Dfl. 28 million.
   Other official financing: Dfl. 8.58 million.
   Financial terms: maturity 15 years; grace period 5 years; interest 2.5%.
   Recipient: Pepen
   Application date: 1980.
   Contract date: 1982.
   Delivery: 1982.
   Procurement procedure: direct negotiations.

3. Two diesel generators, Pesanggaran power station, Bali (6.5 mW each).
   Total transaction amount: Dfl. 12.9 million.
   Aid credit: Dfl. 4.8 million.
   Financial terms: maturity 26 years; grace period 10 years; interest 2.5%.
   Recipient: PLN (State electrical company).
   Application date: 1980.
   Contract date: 1981.
   Delivery: 1982.
   Procurement procedure: direct negotiations.

4. Two diesel generators, Pesanggaran power station, Bali (12 mW each).
   Total transaction amount: Dfl. 44.6 million.
   Aid credit: Dfl. 38.8 million.
   Financial terms: maturity 25 years; grace period 7 years; interest 3.5%.
   Recipient: PLN.

Application date: 1987.
Contract date: 1988.
Delivery: 1988/89.
Procurement procedure: direct negotiations.

5. Hydrographic survey vessel *Bima Sakti*.
Total transaction amount: Dfl. 29.5 million.
Aid credit: Dfl. 3.2 million.
Bilateral grant: Dfl. 23.4 million.
Financial terms: maturity 15 years; grace period 5 years; interest 4%.
Recipient: Directorate General of Sea Communications.
Application date: 1982.
Contract date: 1982.
Delivery: 1984.
Procurement procedure: direct negotiations.

6. Railway equipment, Java.
Total transaction amount: Dfl. 13.95 million.
Aid credit: Dfl. 5.64 million.
Financial terms: maturity 20 years; grace period 10 years; interest 2.5%.
Recipient: Perusahaan Jawatan Kereta Api.
Application date: 1980.
Contract date: 1983.
Delivery: 1984/85.
Procurement procedure: direct negotiations.

7. Railway equipment, Sumatra.
Total transaction amount: Dfl. 12.5 million.
Aid credit: Dfl. 4.2 million.
Financial terms: maturity 30 years; grace period 8 years; interest 2.5%.
Recipient: PJKA.
Application date: 1983.
Contract date: 1983.
Delivery: 1986–89.
Procurement procedure: direct negotiations.

8. Telecommunication equipment, Rawamangun, PRX-I, 9,500 lines (Jakarta).
Total transaction amount: Dfl. 27.5 million.
Aid credit: Dfl. 15 million.
Financial terms: maturity 30 years; grace period 8 years; interest 2.5%.
Recipient: Perumtel.
Application date: 1982.
Contract date: 1983.

Delivery: 1984.
Procurement procedure: direct negotiations.

9. Telecommunication equipment, Rawamangun, PRX-II, 19,400 lines (Jakarta).
   Total transaction amount: Dfl. 27.7 million.
   Aid credit: Dfl. 15 million.
   Financial terms: maturity 30 years; grace period 8 years; interest 2.5%.
   Recipient: Perumtel.
   Application date: 1984.
   Contract date: 1984.
   Delivery: 1984/85.
   Procurement procedure: direct negotiations.

10. Telecommunication equipment, Rawamangun, PRX-III, 4,000 lines (Jakarta).
    Total transaction amount: Dfl. 4.3 million.
    Aid credit: Dfl. 2.4 million.
    Financial terms: maturity 30 years; grace period 8 years; interest 2.5%.
    Recipient: Perumtel.
    Application date: 1984.
    Contract date: 1985.
    Delivery: 1986.
    Procurement procedure: direct negotiations.

11. Telecommunication equipment, cables, Cengkareng I.
    Total transaction amount: Dfl. 12.0 million.
    Aid credit: Dfl. 5.5 million.
    Financial terms: maturity 30 years; grace period 8 years; interest 2.5%.
    Recipient: Perumtel.
    Application date: 1983.
    Contract date: 1985.
    Delivery: 1985/86.
    Procurement procedure: direct negotiations.

12. Telecommunication equipment, PRX-A, 12,000 lines (Jakarta).
    Total transaction amount: Dfl. 19.5 million.
    Aid credit: 8.2 million.
    Financial terms: maturity 30 years; grace period 8 years; interest 2.5%.
    Recipient: Perumtel.
    Application date: 1985.
    Contract date: 1986.
    Delivery: 1986/87.
    Procurement procedure: direct negotiations.

13. Telecommunication equipment, transmission cable Jakarta–Surabaya, and 20,000 lines (Jakarta).
    Total transaction amount: Dfl. 100 million.
    Aid credit: Dfl. 70 million. Other aid funds, Dfl. 20 million. Other official flows, Dfl. 10 million.
    Financial terms: maturity 25 years; grace period 7 years; interest 3.5%.
    Recipient: Perumtel.
    Application date: 1987.
    Contract date: 1988
    Delivery: 1988/89.
    Procurement procedure: direct negotiations.

14. Meteorological ground station, Jakarta.
    Total transaction amount: Dfl. 9.2 million.
    Aid credit: Dfl. 1.8 million;
    Other official flows: Dfl. 2.3 million.
    Financial terms: maturity 30 years; grace period 8 years; interest 2.5%.
    Recipient: Badan Meteorologi dan Geofisica (BMG).
    Application date: 1982.
    Contract date: 1984.
    Delivery: 1987.
    Procurement procedure: direct negotiations.

15. Road bridges (components).
    Total transaction amount: Dfl. 60 million.
    Aid credit: Dfl. 24 million.
    Other official flows: Dfl. 16 million.
    Financial terms: maturity 30 years; grace period 8 years; interest 2.5%.
    Recipient: Bina Marga (Directorate General of Roads and Highways).
    Application date: 1982.
    Contract date: 1984.
    Delivery: 1984/85.
    Procurement procedure: direct negotiations.

16. Low-speed tunnel, Serpong Science Park.
    Total transaction amount: Dfl. 36 million.
    Aid credit: Dfl. 15 million.
    Financial terms: maturity 30 years; grace period 8 years; interest 2.5%.
    Recipient: Puspitek, National Center for Research, Science and Technology.
    Application date: 1984.
    Contract date: 1986.
    Implementation: 1986.
    Procurement procedure: direct negotiations.

17. Low-speed tunnel (follow-up), Serpong Science Park.
    Total transaction amount: Dfl. 11 million.
    Aid credit: Dfl. 4.6 million.
    Financial terms: maturity 30 years; grace period 8 years; interest 2.5%.
    Recipient: Puspitek.
    Application date: 1986.
    Contract date: 1986.
    Implementation: 1986–88.
    Procurement procedure: direct negotiations.

18. Bengkulu port extension.
    Total transaction amount: Dfl. 26.5 million.
    Aid credit: Dfl. 26.5 million.
    Financial terms: maturity 25 years; grace period 7 years; interest 3.5%.
    Recipient: Perum Pelabuhan II.
    Application date: 1987.
    Contract date: 1988.
    Implementation: 1988/89.
    Procurement procedure: direct negotiations.

19. Engineering design, palm-oil terminal, Batam Island.
    Total transaction amount: Dfl. 2.3 million.
    Aid credit: Dfl. 1.0 million.
    Financial terms: maturity 30 years; grace period 8 years; interest 2.5%.
    Recipient: Batam Industrial Development Authority (BIDA).
    Application date: 1986.
    Contract date: 1986.
    Implementation: 1987.
    Procurement procedure: selective tendering.

20. Construction of coal terminal, Tarahan, Sumatra.
    Total transaction amount: Dfl. 87 million.
    Aid credit: Dfl. 26 million.
    Financial terms: maturity 30 years; grace period 8 years; interest 2.5%.
    Recipient: PT Tambung Batubaru Bukit Asam.
    Application date: 1986.
    Contract date: 1986.
    Implementation: 1987.
    Procurement procedure: direct negotiations.

Egypt

1. One tugboat (Stantug 2600), two Multicat pontoons, Suez canal.
   Total transaction amount: Dfl. 5.5 million.
   Aid credit: Dfl. 3.5 million.
   Financial terms: maturity 15 years; grace period 5 years; interest 2.5%.
   Recipient: Canal Harbour Works Company.
   Application date: 1979.
   Contract date (including approval by Parliament): 1980.
   Delivery: 1981.
   Procurement procedure: international competitive bidding.

2. 186 trucks.
   Total transaction amount: Dfl. 22.5 million.
   Aid credit: Dfl. 14.9 million.
   Financial terms: maturity 10 years; grace period 6 years; interest 2.5%.
   Recipient: General Union of Transport Cooperative Societies (GUTCS).
   Application date: 1980.
   Contract date: 1982.
   Delivery: 1982.
   Procurement procedure: direct negotiations.

3. 235 (vertical) sewage pumps, Cairo area.
   Total transaction amount: Dfl. 12.8 million.
   Aid credit: Dfl. 6.4 million.
   Financial terms: maturity 18 years; grace period 10 years; interest 2.5%.
   Recipient: General Organization for Sewage and Sanitary Drainage (GOSSD).
   Application date: 1980.
   Contract date: 1982.
   Delivery: 1982/83.
   Procurement procedure: international competitive bidding.

4. 350 gate valves and safety valves, Cairo area.
   Total transaction amount: Dfl. 7.0 million.
   Aid credit: Dfl. 3.5 million.
   Financial terms: maturity 30 years; grace period 8 years; interest 2.5%.
   Recipient: GOSSD.
   Application date: 1983.
   Contract date: 1985.
   Delivery: 1985/86.
   Procurement procedure: international competitive bidding.

5. Pumping station components, Gabal el Asfar water treatment plant, northern Cairo.
   Total transaction amount: Dfl. 9.47 million.
   Aid credit: Dfl. 4.15 million.
   Financial terms: maturity 30 years; grace period 8 years; interest 2.5%.
   Recipient: GOSSD.
   Application date: 1984.
   Contract date: 1987.
   Delivery: delayed due to contract dispute; expected 1989.
   Procurement procedure: international competitive bidding.

6. Radiology equipment, University of Mansoura, Dakahlia.
   Total transaction amount: Dfl. 20 million.
   Aid credit: Dfl. 8 million.
   Financial terms: maturity 30 years; grace period 8 years; interest 2.5%.
   Recipient: University of Mansoura.
   Application date: 1981.
   Contract date: 1984.
   Delivery: delayed due to technical (building earmarked for housing the equipment was unsuitable) and financial (commercial contract) problems.
   Procurement procedure: international competitive bidding.

7. Three aircraft, Fokker F-27 Mk 500.
   Total transaction amount: Dfl. 55.75 million.
   Aid credit: Dfl. 26 million.
   Financial terms: maturity 30 years; grace period 8 years; interest 2.5%.
   Recipient: Egyptair, operated by Air Sinai.
   Application date: 1982.
   Contract date: 1983.
   Delivery: 1984.
   Procurement procedure: international competitive bidding.

8. Sewage treatment plant, El Mahmoudia.
   Total transaction amount: Dfl. 2.9 million.
   Aid credit: Dfl. 1.6 million.
   Financial terms: maturity 15 years; grace period 10 years; interest 3%.
   Recipient: National Organization for Potable Water and Sanitary Drainage (NOPWASD).
   Application date: 1982.
   Contract date: 1985.
   Delivery: 1986/87.
   Procurement procedure: international competitive bidding.

9. Hatchery equipment, El Salam.
   Total transaction amount: Dfl. 9.28 million.
   Aid credit: Dfl. 4 million.
   Financial terms: maturity 30 years; grace period 8 years; interest 2.5%.
   Recipient: General Poultry Company.
   Application date: 1983.
   Contract date: 1985.
   Delivery: 1986.
   Procurement procedure, selective tender.

10. Pressure regulation and pressure reducing stations, Abu Qir-El Dikheila gas-pipeline.
    Total transaction amount: Dfl. 25 million.
    Aid credit: Dfl. 9.3 million.
    Financial terms: maturity 30 years; grace period 8 years; interest 2.5%.
    Recipient: Petroleum Pipeline Company.
    Application date: 1983.
    Contract date: 1985.
    Delivery: 1985/86.
    Procurement procedure: international competitive bidding.

11. Feedmill plant, 10th of Ramadan City.
    Total transaction amount: Dfl. 4.26 million.
    Credit aid: Dfl. 1.8 million.
    Financial terms: maturity 30 years; grace period 8 years; interest 2.5%.
    Recipient: Egyptian Company for Packing Materials and Distributing Foodstuffs (SHEMTO).
    Application date: 1985.
    Contract date: 1987.
    Delivery: delayed due to commercial contract dispute, expected 1989.
    Procurement procedure: international competitive bidding.

12. Railway equipment.
    Total transaction amount: Dfl. 9.42 million.
    Aid credit: Dfl. 4.71 million.
    Financial terms: maturity 30 years; grace period 8 years; interest 2.5%.
    Recipient: Egyptian Railways.
    Application date: 1985.
    Contract date: 1987.
    Delivery: delayed due to dispute about commercial credit, expected 1989.
    Procurement procedure: international competitive bidding.

Honduras

1. Three palm-oil factories, Bajo Aguan.
   Total transaction amount: US$ 32.3 million.
   Aid credit: Dfl. 11 million.
   Financial terms: maturity 25 years; grace period 8 years; interest 0%.
   Other Dutch aid funds: Dfl. 11 million.
   Recipient: Coapalma Cooperative.
   Application date: 1979.
   Contract date: 1979.
   Delivery: 1981–85.
   Procurement procedure: international competitive bidding.

2. Palm-oil factory, Guaymas.
   Total transaction amount: Dfl. 11.75 million.
   Aid credit: Dfl. 6 million.
   Financial terms: maturity 20 years; grace period 8 years; interest 3%.
   Recipient: Hondupalma Cooperative.
   Application date: 1981.
   Contract date: 1981.
   Delivery: 1984/85.
   Procurement procedure: direct negotiations.

3. Cutter dredger (Beaver 3300), Puerto Cortes.
   Total transaction amount: Dfl. 13.5 million.
   Aid credit: Dfl. 5.7 million.
   Financial terms: maturity 30 years; grace period 8 years; interest 2.5%.
   Recipient: Empresa Nacional Portuaria (ENP).
   Application date: 1984.
   Contract date: 1984.
   Delivery: 1985.
   Procurement procedure: direct negotiations.

4. Port equipment (cranes, handling equipment, navigational aids and communication equipment), Puerto Cortes and San Lorenzo.
   Total transaction amount: Dfl. 18.1 million.
   Aid credit: Dfl. 7.75 million.
   Financial terms: maturity 20 years; grace period 6 years; interest 2.5%.
   Recipient: ENP.
   Application date: 1983.
   Contract date: 1984.
   Delivery: 1984, except for radar traffic guidance system. ENP has requested that delivery be cancelled and the equipment sold to other parties. ENP argues

that the equipment is too sophisticated and installation costs too high. Financial obligations have been met and the equipment is still stored in the Netherlands. Procurement procedure: direct negotiations.

Costa Rica

5. Maintenance dredging, Puerto Caldera.
   Total transaction amount: Dfl. 2.6 million.
   Aid credit: Dfl. 1.3 million.
   Financial terms: maturity 30 years; grace period 8 years; interest 2.5%.
   Recipient: Refinadova Costarricence de Petroleo Sociedad Anonima (Recope).
   Application date: 1984.
   Contract date: 1984.
   Implementation: 1986/87.
   Procurement procedure: direct negotiations.

6. Capital dredging, Puerto Limon.
   Total transaction amount: Dfl. 5.0 million.
   Aid credit: Dfl. 2.5 million.
   Financial terms: maturity 30 years; grace period 8 years; interest 2.5%.
   Recipient: Instituto Costarricense de Puertos del Pacifico (INCOP).
   Application date: 1984.
   Contract date: 1984.
   Implementation: 1984/85.
   Procurement procedure: direct negotiations.

Appendix II. The Operations Review Unit

The Operations Review Unit, better known by its Dutch acronym IOV or Inspectie Ontwikkelingssamenwerking te Velde, was established in 1977. The IOV is responsible for conducting external evaluations of Dutch aid policy. Internal evaluations or mid-term evaluations of projects are the responsibility of the operational units, i.e. the country or programme desks.

The IOV is part of the Directorate General for International Cooperation (DGIS) of the Ministry of Foreign Affairs. It is a completely independent unit which reports directly to the Minister through the Director General. The reports are submitted by the Minister of Development Cooperation to Parliament, and discussed with the Permanent Committee for Development Cooperation with respect to follow-up actions.

Initially, the emphasis was on individual project evaluations. From 1977 up to the mid-1980s the reports were primarily intended for the departmental management. The status of these reports was confidential. During this period about 250 evaluation reports were produced. Gradually a need developed for more general conclusions based on these project findings. In the mid-1980s a number of sector reports were prepared, such as on drinking water, animal husbandry, women in agriculture and rural development, hospital-based health care and primary health care. These reports were made available to the public.

Since then, emphasis has shifted from individual project evaluations to thematic studies. These thematic evaluations are comprehensive; they focus on policies and modalities of implementation and cover entire sectors, themes or programmes. They contain a full review of relevant literature. A comparative study of other donors concerning the same subject matter is usually included.

Duration of these thematic evaluations is one to two years. The studies are carried out under the responsibility of the IOV, with outside experts participating in various phases of the research. Field studies are normally conducted in three to five countries. These country studies are undertaken by a special team of independent external consultants. Increasingly, local institutions or experts are invited to participate in these field missions.

The synthesis report, based on the various field and desk studies, is written by the IOV and published under its responsibility. Three to four such studies are published annually. Examples of recent thematic evaluation studies published by the IOV are: rural development, food aid, mixed credits, import support, small-scale rural industries and a number of regional, integrated development programmes (Indonesia and Zambia).

A reference group consisting of external experts and DGIS staff is appointed for every study. The reference group has three functions: to advise on methodology and approach, on relevant development theories, and feedback.

Appendix III. List of contracted projects

Country and Project	Year of application	MC/LCL (Dfl. 1000)	Transaction (Dfl. 1000)
Angola			
1. Trucks Panga Panga	1982	6,000	13.666
2. Base Porto project	1983	3,343	22,300
3. Soyo Dam Sonangol	1983	21,000	50,000
4. Port Amboin oil pipes	1983	4,000	9,400
5. Fire-fighting equipment	1983	11,200	26,600
6. Coastal protection Ilha de Luanda	1984	16,000	37,500
7. Coasters	1985	17,000	40,476
8. Trucks (assembly)	1985	17,600	35,024
9. Freight vessel	1986	2,930	6,513
10. Port equipment	1986	7,316	16,259
Bangladesh			
11. Aircraft	1979	39,135	71,200
Benin			
12. Pilot boat	1983	477	954
Birma			
13. Dredging equipment	1979	8,800	15,300
14. Mini sugar factory	1981	6,035	10,882
15. Telecommunication equipment	1983	7,500	15,000
Burkina Faso			
16. Aircraft	1982	15,000	42,300
Burundi			
17. Telecommunication equipment	1984	9,000	18,000
Cameroon			
18. Road project (Douala-Yaounde)	1979	7,000	26,000
19. Drinking water project	1986	11,500	30,000
20. Hydrographic survey vessel	1987	1,650	2.250
21. Dredging project (Douala)	1987	22,600	30,900
22. Water supply project	1987	14,929	14,929
China			
23. Telecommunication equipment	1985	13,992	13,992
24. Shanghai Airport	1986	955	3,400
25. Dairy plant project	1986	14,630	32,470
26. Starch factory	1986	10,000	22,200
27. Wuhan optical fibre	1986	43,500	72,500
28. TV plant	1987	50,000	177,000
29. Potato factory	1987	15,600	15,600
30. Milk powder factory	1987	6,228	6,228
31. Poultry project Fushun	1987	9,805	9,805

Country and Project	Year of application	MC/LCL (Dfl. 1000)	Transaction (Dfl. 1000)
32. Cornstarch plant	1987	15,050	15,050
33. Xinjang drainage project	1988	8,539	8,539
34. Feed mills	1988	5,028	5,970
Colombia			
35. Dredging (Barranquilla)	1988	30,000	40,000
Costa Rica			
36. Dredging project (Pt. Limon)	1984	2,479	4,959
37. Dredging project (Caldera)	1984	1,300	2,600
38. Survey equipment	1985	500	935
39. Tugboat	1986	3,704	3,704
Egypt			
40. Tugboat, pontoons	1979	3,480	5,468
41. Trucks	1980	14,90	22,600
42. Sewage purification plant	1981	1,600	3,148
43. Sewage pumps	1981	6,410	12,829
44. Hospital equipment	1981	8,000	20,000
45. Aircraft	1982	26,000	55,760
46. Valves	1983	3,500	7.072
47. Hatchery equipment	1983	4,000	9,285
48. Natural gas stations	1983	9,300	25,005
49. (Vertical) sewage pumps	1984	4,150	9,472
50. Railway equipment	1985	4,710	9,420
51. Feedmill	1985	1,800	4.266
Fiji			
52. Cutter dredgers (2)	1984	3,000	7,200
Ghana			
53. Palm-oil factory Twifo	1983	10,000	41,575
54. Telecommunication	1986	18,733	37,546
55. Buses project	1986	15,000	16,020
56. Fishing boats	1987	17,500	17,500
57. Oil-exploration GNPL	1987	15,000	15,000
58. Kumasi Mampong road	1988	15,000	15,000
59. Multi-purpose boat (assy)	1979	7,300	14,650
Honduras			
60. Palm-oil factories	1979	11,000	33,000
61. Palm-oil factory (Guayamas)	1981	6,000	11,755
62. Harbour project	1983	7,750	18,114
63. Cutter dredger	1984	5,707	13,588
64. Power plant (Roatan)	1987	14,600	14,600
India			
65. Dredging vessel	1985	12,000	43,900
66. Dredging project (Nava Sheva)	1986	30,776	76,600
67. Telecommunication	1986	5,200	11,556
68. Telecommunication Silchar/Asam	1987	3,249	6,489

Country and Project	Year of application	MC/LCL (Dfl. 1000)	Transaction (Dfl. 1000)
69. Dredging vessel	1988	41,460	47,460
Indonesia			
70. Dredging vessel	1979	41,590	41,590
71. Railway equipment	1980	5,640	13,951
72. Hopper dredgers (2)	1980	28,000	81,409
73. Bali power plant	1980	4,800	12,900
74. Meteo groundstation	1982	1,800	9,240
75. Road bridges	1982	40,000	60,000
76. Railway equipment	1982	4,160	12,498
77. Telecommunication	1982	15,000	27,456
78. Telecommunication	1982	15,000	27,695
79. Telecommunication	1982	2,400	4,309
80. Hydrographic survey vessel	1982	3,200	29,500
81. Electrical trains	1983	45,000	54,000
82. Telecommunication	1983	5,500	11,991
83. Low-speed tunnel (project 1)	1984	15,000	36,000
84. Telecommunication	1985	8,200	19,493
85. Low-speed tunnel (project 2)	1986	4,600	11,000
86. Palm-oil terminal design	1986	973	2,288
87. Coal terminal Tarahan	1986	25,970	87,190
88. Bandung water supply	1986	22,600	32,600
89. Telecommunication	1986	25,000	25,000
90. Harbour project Bengkulu	1987	26,489	30,579
91. Turnkey telecommunication	1987	70,000	100,000
92. Extension Bali power plant	1987	38,835	44,656
93. Air traffic control	1987	22,000	22,000
94. Air traffic control	1987	28,000	28,000
95. Educational equipment	1987	50,000	50,000
96. Road bridges	1987	50,000	67,000
97. Batam palm-oil terminal civil works	1988	81,600	107,150
98. Batam palm-oil terminal supervision	1988	2,400	3,000
Ivory Coast			
99. Palm-oil tanker	1982	10,000	30,375
100. Dredging project (San Pedro)	1983	850	1,950
Jamaica			
101. Trucks	1979	3,715	7,100
Kenya			
102. Sugar factory	1986	14,100	31,300
103. Vinasse boiler installation	1986	15,800	17,690
104. Telecommunication	1986	13,880	13,880
105. Port equipment	1988	7,287	7,287
Morocco			
106. Hydraulics lab. Casablanca	1982	1,200	2,500
107. Port and dredging project	1982	6,200	14,000

Country and Project	Year of application	MC/LCL (Dfl. 1000)	Transaction (Dfl. 1000)
Mauretania			
108. Fishing boats (10)	1986	34,450	68,900
Mexico			
109. Cadet training vessel	1979	17,700	70,800
Mozambique			
110. Textile machinery	1983	400	800
Nicaragua			
111. Tugboat	1982	2,500	4,313
112. Maritime supplies	1983	3,700	8,800
Nigeria			
113. Lagos solid waste disposal trucks	1983	30,000	94,970
North Yemen			
114. Al Thawra hospital	1984	6,900	13,808
115. Tin plant	1987	3,390	6,787
116. Refrigeration plant	1987	6,186	6,186
Peru			
117. Telecommunication	1983	15,000	35,000
Philippines			
118. Dredging epuipment	1983	2,300	5,427
Rwanda			
119. Telecommunication	1984	7,500	15,000
Senegal			
120. Ferry boat	1983	1,142	2,720
121. Fishing trawlers (4)	1986	5,794	12,610
Sri Lanka			
122. Dredging project (Colombo port)	1987	6,704	7,704
Tanzania			
123. Dar Es Salaam portworks	1979	4,400	8,995
124. Floating crane Dar Es Salaam	1980	1,065	2,065
125. Cassave-starch factory	1980	5,500	9,000
126. Tugboat	1982	3,929	5,500
Tunisia			
127. Poultry stables	1980	1,200	2,660
128. Tugboats (2)	1983	7,000	15,300
129. Tugboats (2)	1983	5,940	13,300
130. Port equipment	1983	4,000	8,900
131. Port project Zarsis	1983	9,200	28,200
132. Printing equipment	1984	643	1,531
133. Dairy plant	1987	16,642	16,642
Zambia			
134. Public transport equipment	1981	2,400	3,500
Zimbabwe			
135. Dairy trucks	1981	5,000	10,000
136. Second power project	1987	12,848	12,848

Appendix IV. Project evaluation results

Project evaluation concerning relevance to development is based on the appraisal criteria of the programme itself: financial and economic feasibility, technical appropriateness, effect on the balance of payments and employment, and effects on the target groups.

The overview below presents the results of the field study for the main (sub)criteria per project or category of projects. Some mutually similar transactions were grouped in a single category (e.g. most telecommunication equipment deliveries). Scores were arrived at as follows:

1. Financial feasibility

To what extent does the investment generate sufficient income to cover all recurrent costs and depreciation? Financial feasibility was considered negative, for example, if the organization was unable to finance all or part of the operation and maintenance costs through its own budget. Main sub-issues were: capacity utilization, technical appropriateness and local-cost financing.

1.1 *Capacity utilization*. To what extent are the goods supplied in fact utilized? When less than 75% of the potential (planned) capacity is used the project scores insufficient.

1.2 *Technical appropriateness*. The score is based on eight sub-criteria concerning standardization, maintenance and technical expertise. Key issue was whether the technical level and sophistication of the goods supplied was such that the goods or civil engineering structures can remain fully operational after termination of the donor's assistance.

1.3 *Local-cost financing*. To what extent was lack of local means a problem during installation and implementation of the project? Negative scores went to situations where lack of local contributions led to significant delays in implementation, or to significant limitations in the use of the goods supplied.

2. Economic feasibility

An overall economic analysis was carried out to determine the project's effect on the economy of the recipient country. In addition to effects on income and spin-off effects on improvements in the regional or national development, special consideration was given to effects on employment and balance of payments. The economic analysis was based on qualitative data and should therefore be seen as an approximation of economic feasibility only.

2.1. *Balance of payments.* To what extent should the investment be seen as a net contributor to the balance of payments position of the recipient country? The balance of payments effect is negative if the debt and interest repayment is more than the hard currency earnings/savings generated by exports or imports substitution.

2.2 *Employment.* To what extent did the project create jobs? The employment effect is negative if the investment made a substantial number of jobs redundant (directly or indirectly).

3. Social analysis

To what extent did projects contribute to the structural elimination of poverty? In the programme one of the criteria was that the project should have no averse effect on the target groups. In the evaluation, therefore, potentially negative effects of the transactions on the poor were given special attention.

OVERVIEW OF THE MAJOR TEST RESULTS*

	Number of transactions	Financial feasibility	Economic feasibility	Social analysis
Indonesia				
1. Dredging vessels	2	–	–	0
2. Diesel generators	2	0	+	0
3. Hydrographic vessel	1	–	–	0
4. Railway equipment	2	–	0	0
5a. Telecommunication	5	+	+	0
5b. Telecommunication	1	·	0	0
6. Meteorological groundstation	1	–	–	0
7. Road bridges	1	–	+	+
8. Low-speed tunnel	2	–	–	0
9. Coal terminal	1	0	+	0
10. Design palm-oil terminal	1	0	+	0
11. Benkulu port extension	1	–	–	0
Egypt				
1. Tug and pontoons	1	0	0	0
2. Trucks	1	0	0	0
3. Sewage pumps	3		–	+
4. Radiology equipment	1	–	–	0
5. Aircraft	1	+	+	0
6. Sewage treatment plant	1	–	–	0
7. Hatchery equipment	1	+	0	0
8. Gas pressure regulation stations	1	+	+	0
9. Feedmill	1	0	0	0
10. Railway equipment	1	–	0	0
Honduras/Costa Rica				
1/2. Palm-oil plant Bajo Aguan/ Guaymas	2	–	+	+
3. Port equipment	1	–	–	0
4. Cutter dredger	1	–	–	0
5. Dredging (Limon)	1	+	+	0
6. Dredging (Caldera)	1	0	0	0
Score: +		9	15	6
0		8	9	32
–		21	14	0

*Assessment: + =positive/reasonable; 0=zero/doubtful; – =negative.

Appendix V. List of countrics receiving Dutch bilateral aid

Programme Countries (10)	Sector Countries (15)
Bangladesh	Benin
Egypt	Birma
India	Burundi
Indonesia	Cameroon
Kenya	China
North Yemen	Ghana
Pakistan	Ivory Coast
Sudan	Jamaica
Sri Lanka	Madagascar
Tanzania	Nepal
	Nigeria
	Philippines
	Rwanda
	Thailand
	Tunisia

Countries in Programme Regions (26)

Southern Africa (8)	Sahel (9)	Central America (5)	Andes (4)
Angola	Burkina Faso	Costa Rica	Bolivia
Botswana	Cape Verde	El Salvador	Colombia
Lesotho	Chad	Guatemala	Ecuador
Malawi	Gambia	Honduras	Peru
Mozambique	Guinea-Bissau	Nicaragua	
Swaziland	Mali		
Zambia	Mauretania		
Zimbabwe	Niger		
	Senegal		

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