

# IOB KEY SHEET

Report no. 280

## CO-FINANCING BETWEEN THE NETHERLANDS AND THE WORLD BANK 1975-1996

Policy and Operations Evaluation  
Department - IOB  
Ministry of Foreign Affairs of the Netherlands  
P.O. Box 20061 | 2500EB | The Hague

### Background information:

The Dutch co-financing with the World Bank totalled some US\$ 2,5 billion in committed aid funds between 1975 and 1996. By the end of 1996 some US\$ 2,1 billion of this amount had been disbursed. Programme aid accounted for 57 per cent, and project aid for the remainder. The distribution between joint co-financing and parallel co-financing was 60 to 40. Virtually all co-financing was provided as a grant. In general the Netherlands was the Bank's sixth largest donor, and for some funds of the Bank it is one of the largest contributors. The study subjected 14 percent of the total amount disbursed to direct in-depth evaluation. Additionally, 30 percent was covered indirectly, thanks to evaluation material already available at IOB and the World Bank. There were five main findings and three issues for the future.

### Main findings

#### Co-financing

Co-financing allowed the Netherlands and the recipient countries to benefit from the participation in larger projects and programmes. For recipient countries the grant nature of the Dutch contribution was an additional advantage. The quality of the programme aid was better than that of the project aid. The joint co-financing had a positive impact on donor co-ordination but was not effective in mobilising additional resources. The interests of the Dutch private sector were scarcely served. Registration of co-financed activities, monitoring, reporting and evaluation were, especially in the 1980s, rather weak.

#### Programme aid

The World Bank proved to be an appropriate channel for the support of structural adjustment programmes and the only suitable partner through which bilateral funds in support of economic reform programmes could be channelled. Since the late 1980s the social dimensions of such programmes received increasing attention. Lack of data on the poverty situation had a negative influence on the programmes' design. In countries where the government's ownership of the structural adjustment programme was high, the reform programmes were most effective. Debt relief has not always been effective and efficient. Assessments of the debt situation focused on traditional indicators, without addressing more fundamental issues such as the impact of new loans and a country's ability to pay the debt service on these. In all cases the sustainability of results proved to be problematic. Virtually all recipient countries showed an increased aid dependency.

#### Project aid

Most evaluated project aid addressed genuine problems and was in line with the declared policies of both the recipient countries and the Netherlands. Macro-economic, social and political conditions beyond the projects' scope however were given insufficient consideration, which made the projects less effective. Gender and the environmental issue were often neglected. The poor, particularly poor women, were often not reached. Co-financed projects linked to economic reform programmes such as civil-service reform, and infra-structural projects often performed better than stand-alone projects.

**Dutch involvement**

Decisions to co-finance, taken by the Dutch, did not show any clear pattern of systematic selection based on objective criteria, nor a motivated choice for either a parallel or a joint implementation of activities. The decisions were often motivated by the desire to spend quickly a yet undisbursed amount of the overall budget at the end of the fiscal year. In practice, substantial amounts remained unspent for a considerable period. Dutch participation in the identification, appraisal, monitoring and evaluation of jointly co-financed activities was an exception rather than standard practice.

**The Dutch private sector**

Tripartite transactions involving the World Bank, the Ministry of Foreign Affairs and the Dutch private sector have never reached any important level. Apart from an often-unfavourable macro-economic context (recession, precarious debt situation) and low creditworthiness, the limited geographical coverage of aid instruments of the Ministry of Foreign Affairs and limitations both inside the Netherlands Credit Insurance Company (Nederlandse Credietverzekeringsmaatschappij) and the World Bank were factors explaining this.

**Issues for the future:****Dilemma**

Economic reform programmes under an authoritarian government were generally more effective than those in countries with a properly functioning democratic system. The former were more free to commit themselves, without having to take (possible) dissent into consideration. Consequently, economic reforms in countries that also introduce political reform need more time.

**Joint or parallel**

In the case of programme aid joint financing is the preferred form of co-financing economic reforms, since it serves best the purpose of donor co-ordination. The question of whether joint or parallel co-financing is more appropriate for project aid requires consultation with recipient countries on a case-to-case basis.

**Added value of Co-financing**

Co-financing could never respond to all Dutch expectations and motivations, since some conflicted with one another. The workload of the ministry was certainly reduced, particularly in joint financing. The price paid for this was that the ministry scarcely succeeded to influence World Bank policy, nor to benefit from new experiences.

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For more information contact IOB. tel: + 31 70 348 5279. Email <iob@minbuza.nl>. Internet <www.euforic.org/iob>