





HD28  
.M414  
no. 49-64

WORKING PAPER  
SCHOOL OF INDUSTRIAL MANAGEMENT

MIT. 7

THE EXTERNAL AID SPECIALISTS

Group A: Hoffman, Lyman, Roemer, Scott

F.I.A. Athens Conference

August 10 - 24, 1963

49-64

MASSACHUSETTS  
INSTITUTE OF TECHNOLOGY  
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## INTRODUCTION

The M.I.T. Fellows in Africa have met together during a fortnight each summer since 1961 to exchange papers and to discuss their experiences as employees of African Governments. Since its inception in 1960, 26 American graduates from the M.I.T. School of Industrial Management or the Harvard Business School have performed duties as a part of the regular establishment of their African governments. The breakdown according to organizations is as follows:

Economic Planning Ministry or Commission	7
Ministry of Finance or Treasury	6
Development Bank	6
Ministry of Commerce and Industry	5
Public Utility - Railway	1
- Posts and Telegraphs	1

Nine Law Fellows, graduates of Harvard or Yale Law Schools have similarly served in legal offices, as follows:

Ministry of Justice - Attorney General	3
Office of the Chief Justice	2
Ministry of External Affairs	2
Ministry of Finance	1
Director of Public Prosecution	1

Their unusual positions have made the annual two week summer conference a time of lively and enriching discussion.

Last August, 25 Fellows and wives, along with African guests from the ministries and offices in which Fellows work, M.I.T. faculty and a small number of governmental and international civil servants met at the Mont Parnes Hotel outside Athens. The theme which served as the departure point for discussion was the need for innovators and innovation. After opening presentations and discussions of issues, the Fellows separated into four groups: the external aid specialists, the planners and administrators, those concerned with financing and assisting private entrepreneurs, and the lawyers. For two days, these working groups met to examine the meaning of innovation in the context of their experience. Because of the almost unique position from which the Fellows approached this task, we are reprinting as School of Industrial Management Working Papers the report which issued after these two days. What follows is the working report of the external aid specialists.

Carroll L. Wilson  
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## WHAT IS EXTERNAL AID

Economic aid is a flow of goods and services across international borders. In real terms, the only way one economy can aid another is by supplying it with goods and services which the aided economy lacks, cannot produce, or would produce, or would prefer not to produce in favor of producing alternative goods and services. Determining aid requirements is a matter of identifying those goods and services which are not available within the economy or which would require an undue quantity of domestic resources in order to be made available.

The first step in the determination is to ascertain the goods and services which the economy will require over a given period of time to support a development plan. The list must include not only the requirements for investment, but also consumer goods and services required to satisfy demand during the period. The increased demand which arises indirectly as a result of investment expenditure should be explicitly recognized. Often development plans are not sufficiently comprehensive to permit the identification of this total array of requirements which should include all elements making up national product. Too often development plans are specific only in respect of investment resources required for a central government program, omitting requirements for consumption and private sector investment.

Once the best possible effort has been made to determine the next step is to decide which can be produced locally and which can be imported. These decisions should be made to maximize the utilization of locally available resources and need not concern us here. Goods and services which cannot or should not be produced locally must, of course, be imported. With proper controls a part of these import requirements will be financed by the proceeds of exports, and a further portion will be financed by foreign private investment. The remainder cannot be imported unless some other source of foreign exchange is found,



and this source is external aid. Thus aid should be conceived of as a flow of goods and services into an economy to allow that economy to meet its requirements for external resources. As such it is a balancing factor in the periodic foreign exchange budget.

Two obvious but important conclusions follow from this macro-economic concept of external aid. First, aid is an integral component of any development plan. Second, if a development plan is to be given the greatest chance to succeed, it must be comprehensive enough to allow identification of the total real requirements of the economy, so that the total needs for external resources will be recognized and attempts can be made to meet them.

#### AID IN PRACTICE

It is generally true that neither aid donors nor recipients operate on the macro-economic concept of aid described above. Aid is more often regarded as government-to-government financial and technical support for public sector development expenditure, or the development budget. Too frequently, though, development budgets bear no direct and easily recognizable relation to the gap in the economy's total external requirement which is the proper object of external assistance. Furthermore, in practice, aid is only available to certain projects within the development budget. These are often selected in order to provide maximum control of expenditure and to assure the most dramatic and identifiable uses for funds. To remove the operating concept of aid even further from economic concept assistance frequently covers only a portion of public expenditure on development projects, usually that portion representing foreign exchange requirements. Furthermore, an arbitrary distinction between development and recurrent budgets often excludes foreign exchange component of the latter from consideration for economic aid.

These operating concepts cause external assistance to be restricted to a limited portion of public sector expenditure, implicitly denying the availability of aid for the economy at large and, of course, the private sector. For these



reasons, aid is unlikely to be sufficient to fill the gap in the real requirements of the economy, and the desired level of capital formation and economic activity may not be reached. Although there are certain exceptions such as surplus agricultural commodity programs, they do not substantially alter these conclusions in practice. External aid administration as practiced is narrowly conceived and even self-defeating because it fails to meet the fundamental economic need which is its purpose.

### IMPLICATIONS FOR INNOVATION

Once the aid administrator clears his mind of the common misconception of the purpose of external assistance and recognizes a proper one, his capacity for meaningful innovation, with the purpose of increasing aid flows to his country, will be greatly expanded. There are several innovations which seem promising, and these stem directly from the macro-economic concept of external aid. Four areas present themselves for immediate consideration: the development plan, organization of the aid function, administrative devices, and a time factor.

The development plan should play a key role by identifying explicitly the part that external aid must play in its successful completion. The plan should present an estimate of the total needs of the economy in terms of goods and services over the plan period, including the increased demand for consumer goods and raw materials which will arise from capital expenditure. The plan should then, in terms of the macro-economic analysis above, state how much of those needs will have to be met from external aid if the economy is to grow at the projected rate. Consequently, explicit attention must be given to present and projected balance of payments, including future requirements for debt servicing and the private sector. An annual foreign exchange budget is a useful device for this projection.

If the development plan is to reflect the essential relation between planning and aid, the organizations responsible for these functions must be integrated. Negotiation for aid is only one aspect of total resource mobilization to meet the



needs identified by planners. However, because aid strives to secure the marginal or residual requirements for growth, the planners must be especially sensitive to its prospects for success and be sufficiently flexible in order to make changes in resource allocations necessitated by changes in the anticipated flow of external assistance. And, of course, integration between aid and planning will reduce the amount of miscalculation when the development plan is first formulated. The aid function should also be organized to provide close liaison with agencies of government responsible for the functions which bear directly on the determination of the need for aid and its use. Departments dealing with export promotion and foreign private investment have important contributions to make to the determination of aid requirements, as does the statistical department. Exchange control and import licensing machinery play important roles in mobilizing external resources and must work closely with the planning unit.

Next, new administrative practices might be devised to open the channels of private sector production and distribution to external aid. Foreign exchange could be borrowed from a donor country and sold to the private sector to allow the purchase of imports from that donor country. The local currency received from the private sector could then be used for the local costs of development expenditure. The problem is often that insufficient administrative machinery exists to make this process workable or to satisfy the aid donor. There is a need to supervise the imports of goods under such a program and to channel the foreign exchange acquired into the imports that will contribute in an optimum way to filling the country's need for foreign goods and services. If effective machinery could be developed, part of import needs now being financed from export earnings could be financed from foreign aid, and the total amount of aid available to the country might be increased.

Two important time delays face the aid administrator. First, it takes time to plan as fully as prescribed in this paper. Second, it normally takes a matter



of 12 to 24 months from the start of negotiations with a potential donor to the first drawing under a loan or grant. It follows that the development plan must be produced sufficiently far in advance to allow the aid administrators to secure the necessary finance to execute projects in the plan. The plan should also cover a sufficiently long period to allow maximum flexibility in varying its composition to meet the exigencies of aid negotiations.

An innovation which would contribute significantly to flexibility involves expenditure authorization. Legislative authorization for development budgets should cover not one, but two or more years, and should include a section of projects which, though not within the ceiling being authorized, could be substituted for those within the ceiling if resources become available for those and not others. This may be particularly useful if, for example, private sector imports under an aid program substantially increase because of the aid administrator's efforts, and more "local cost" projects are desired for earlier finance. The supplementary list should be composed of investments phased for later years of the development plan. A two-year authorization with supplementary projects would also free planners from some of the burdens of seeking detailed legislative authority annually as in present capital budget "estimates".

In summary, if the macro-economic concept of external aid presented above is adopted, then many of the most fruitful opportunities to enhance the flow of economic aid lie within the control of recipient countries and it is in these areas that we have suggested changes. Improvements in planning, particularly to broaden the scope to embrace the total requirements and availability of resources for economic growth should be given early attention. Refined estimates of requirements for external goods and services should follow, including a continuous assessment of present and future foreign exchange requirements. The external aid function then would be more properly identified as only one aspect of the broader problem of mobilizing total resources. If such a view were taken it is conceivable



that many of the presently perceived constraints of donor countries would become much less burdensome to the flow of external aid.









