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# **MANAGING POLICY REFORM**

**AN EVALUATION**

**IN CDIE'S**

**OPERATIONAL AND MANAGEMENT SYSTEMS**

**ASSESSMENT SERIES**

**Seminar Presentation**

**August 12, 1994**

## **COVERAGE**

- O STUDY BACKGROUND**
- O PURPOSE OF THE EVALUATION**
- O STUDY METHODOLOGY**
- O FINDINGS AND IMPLICATIONS**

CDIE'S OPERATIONAL AND MANAGEMENT

SYSTEMS ASSESSMENTS

HAVE AS A COMMON FOCUS

QUESTIONS ABOUT:

**MANAGEMENT CHOICES USAID MAKES  
AND THE WAY THOSE CHOICES  
INFLUENCE DEVELOPMENT RESULTS**

THE MANAGING POLICY REFORM EVALUATION

FOCUSES ON MANAGEMENT CHOICES USAID MADE

FOR A SPECIAL SET OF PROGRAMS

## USAID POLICY REFORM PROGRAMS

- o USAID's experience with POLICY REFORM PROGRAMS did not begin with the 1980s, but it did expand considerably.
- o During the 1980s many forces -- not just USAID interest -- combined to focus attention on the impact of developing country policies on their own development:
  - For many countries, instability in the commodity markets and a world-wide recession combined to tumble foreign exchange earnings.
  - During the same years, hopeful promises had expanded the operating costs as well as the responsibilities of government.
  - Accumulated debt to public as well as private sector lenders reached ever upward.
- o Governments were not only in trouble -- they were their own source of trouble. Rather than encouraging free markets to operate, many developing country governments:
  - Competed with, rather than encouraged the private sector in the productive arena;
  - Used subsidies and price controls in all sectors to control their economies -- and ended up eliminating incentives;
  - Limited rather than expanded their trade opportunities through protectionist regulations.
- o During the 1980s. USAID and other donors looked for ways to help developing countries climb out of the downward economic spirals in which they were caught. USAID programs encouraged:
  - Sound macroeconomic management;
  - Reliance on market principles in the domestic economy;
  - Export-oriented, "free" trade policies;
  - Privatization of productive enterprises; and
  - User fees that cover the some of the cost of government services.

## POLICY REFORM PROGRAMS WERE "DIFFERENT"

Policy reform turned out to depend more upon political will than on the kind of technical assistance USAID was used to providing in agriculture and the social service sectors.

Within USAID, one of the most popular policy reform models involved:

- o The transfer of cash to host government that were ready to make change;
- o In the form of a grant, that did not have to be repaid;
- o But to which USAID could add "conditions" that must be met if waves, or tranches, of cash were to be released.

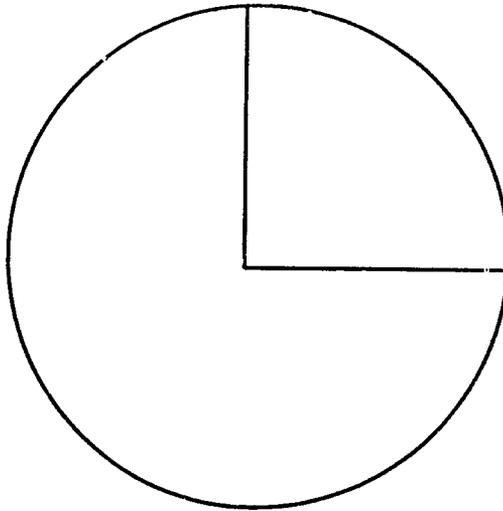
Policy reform programs were also carried out in other ways:

- o Commodity Import Programs (CIPs); PL480 resources; projects and high-level dialogues about policy were all tried.
- o By large and small USAID missions;
- o Working alone as well as with other donors.
- o DA, DFA and ESF, as well as PL480 funds were put to work.
- o Unconditioned as well as conditioned programs were developed.
- o With and without the participatory involvement of host country representatives.

By the end of the 1980s USAID had in place a "laboratory" of policy reform experiments. Experiments which were novel in that they attempted to achieve development results under very uncertain circumstances -- and with respect to the management choices and arrangements USAID was using to administer them.

## POLICY REFORM PROGRAMS IN USAID'S PORTFOLIO

- o There is no authoritative estimate of the portion of USAID's portfolio -- considering ESF, DA, DFA and PL 480 resources -- that was devoted to policy reform during the 1980s and the early 1990s.
- o For a number of years, USAID/Egypt spent roughly 1/4 of its resources -- not counting PL 480 -- on policy reform.



- o It is hard to imagine that USAID as a whole exceeded this ratio even in peak policy reform years --- although among missions there was a great deal of variability and some may have spent a higher fraction on policy reform programs for a period of time.

**CDIE'S MANAGING POLICY REFORM EVALUATION**

**SOUGHT TO EXPLORE THE NATURE OF THESE**

**EXPERIMENTS IN MANAGING DEVELOPMENT**

**ITS PURPOSE IS TO EXTRACT LESSONS THAT**

**USAID CAN APPLY IN THE FUTURE AS IT:**

- o DESIGNS AND IMPLEMENTS PROGRAMS THAT INCLUDE A POLICY REFORM ELEMENT.**
  
- o DEVELOPS AND MANAGES ACTIVITIES THAT BEAR A CLOSER RESEMBLANCE TO "NON-PROJECT ASSISTANCE" THAN TO "PROJECT ASSISTANCE".**

CDIE'S DESIGN FOR THIS STUDY:

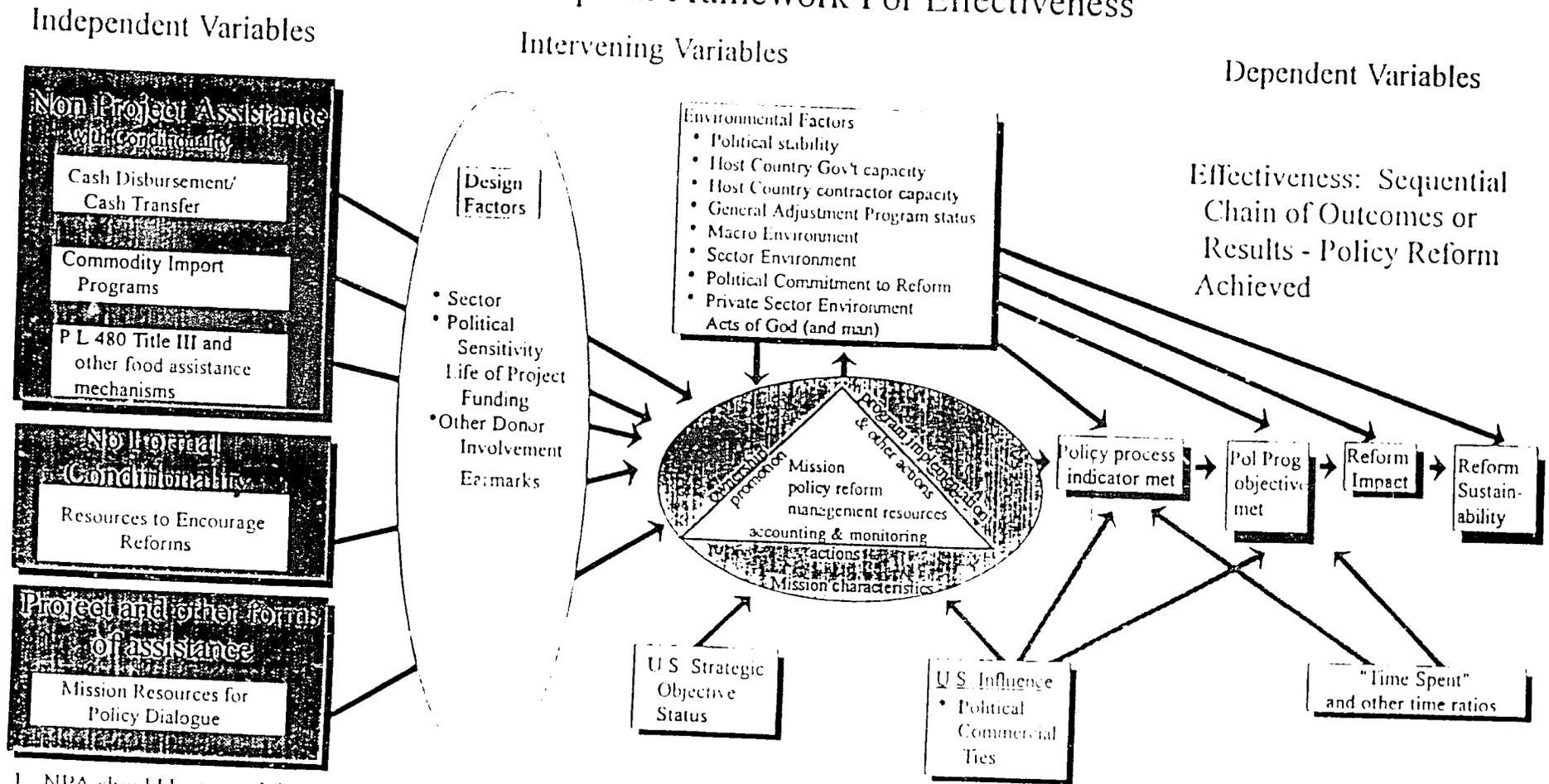
- o IDENTIFIED THE MANAGEMENT FACTORS IN POLICY REFORM PROGRAMS OVER WHICH USAID HAS FULL CONTROL:
  - TYPE OF PROGRAM --- CASH TRANSFER, CIP, PL480, PROJECT OR POLICY DIALOGUE
  - THE USE OF CONDITIONALITY
  - SOURCE OF FUNDS -- ESF, DA, DFA OR PL480
  - FUNDING APPROACH -- GRANT OR LOAN
  - MANAGEMENT STYLE -- "DO IT YOURSELF" OR ENGAGE CONTRACTOR/GRANTEES
  - DOLLAR VALUE OF THE ASSISTANCE PROVIDED
  
- o AS WELL AS OTHER FACTORS IN THE PROGRAM ENVIRONMENT OVER WHICH USAID DID NOT NECESSARILY HAVE CONTROL:
  - THE COUNTRY'S LEVEL OF DEVELOPMENT
  - ITS POLICY ENVIRONMENT AT THE MACROECONOMIC AND SECTORAL LEVEL
  - ITS LEVEL OF COMMITMENT TO REFORM
  - THE CAPACITY OF THE HOST COUNTRY GOVERNMENT TO CARRY OUT A REFORM PROGRAM
  - OTHER DONOR INVOLVEMENT
  - OVERALL LEVEL OF U.S. INFLUENCE IN THE SITUATION

THE DESIGN ALSO IDENTIFIED THE KEY OUTCOMES  
OF INTEREST TO USAID:

- o **EFFECTIVENESS -- IN ACHIEVING THE MAIN OBJECTIVES  
OF POLICY REFORM PROGRAMS**
  - Adoption and implementation of the reforms themselves, and the achievement other policy reform program objectives, rather than their downstream impact.
  
- o **EFFICIENCY -- IN A VERY THE LIMITED SENSE:**
  - For purposes of this study, USAID staff time was considered to be the Agency's scarcest resource.
  - The amount of time taken by policy reform programs -- real time and elapsed time -- served as a proxy for efficiency concerns.

RELATIONSHIPS BETWEEN  
THE FACTORS USAID COULD AND COULD NOT CONTROL  
AND THESE OUTCOMES  
WAS DISPLAYED IN A WORKING DIAGRAM  
DEVELOPED FOR THE EVALUATION'S DESIGN PAPER.

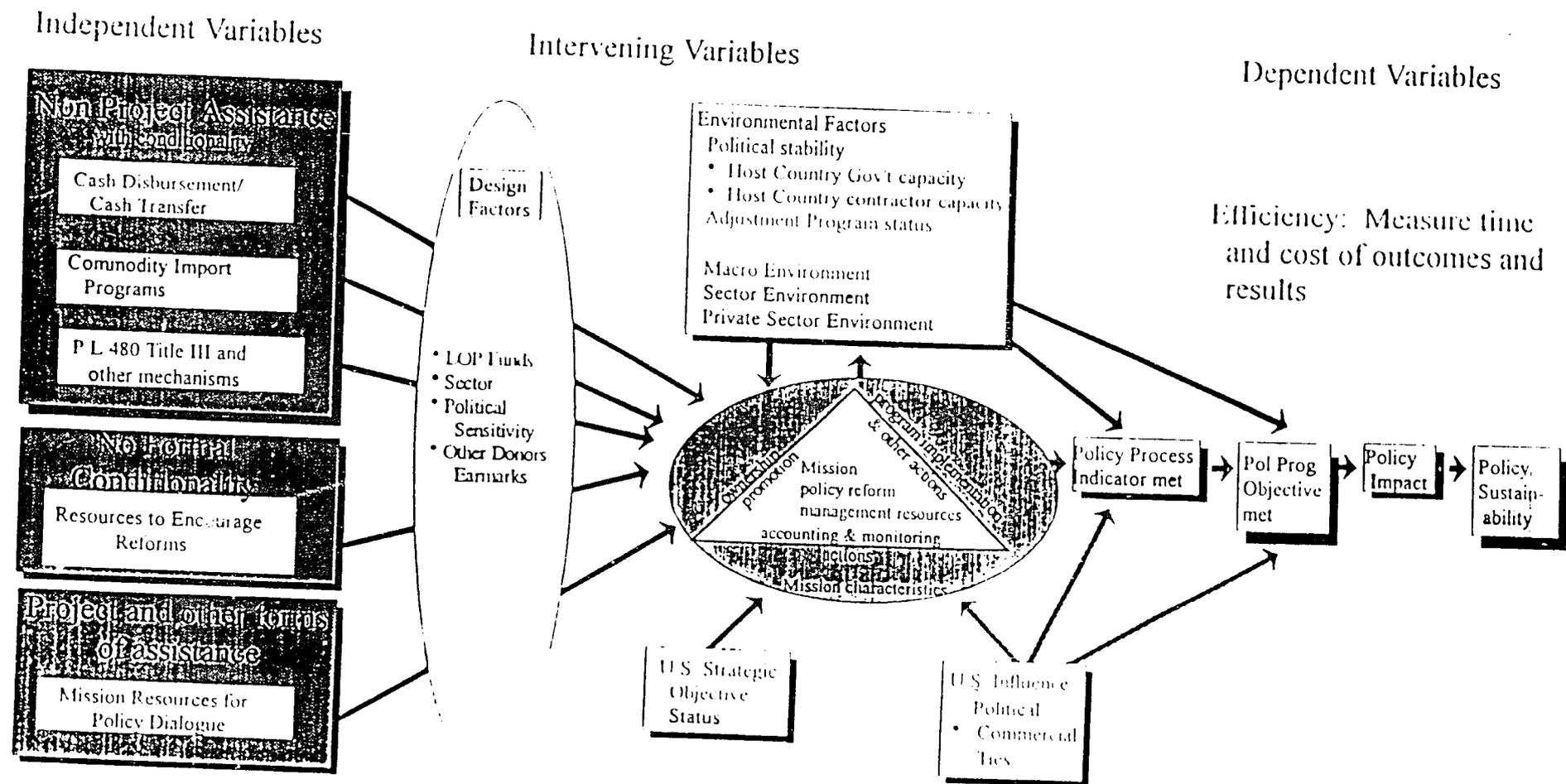
Figure 1: Conceptual Framework For Effectiveness



- 1 NPA should be tagged for appropriation, sector, local currency PA for appropriation and sector
- 2 Strength of linkage indicated by thickness and solidity of line
- 3 \* Strong, influential subfactor for this dependent variable
- 4 Under environment, those aspects of macro and sector policy not directly addressed by AID policy would be considered to be an intervening variable for the particular case

Revised Date  
6/29/93

Figure 2: Conceptual Framework For Efficiency



- 1 NPA should be tapped for appropriation, sector, local currency
- 2 Strength of linkage indicated by thickness and solidity of line
- 3 • Strong, influential subfactor for this dependent variable
- 4 Under environment, those aspects of macro and sector policy not directly addressed by AID policy would be considered to be an intervening variable for the particular case

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## DEVELOPING A STUDY DESIGN

Began with a determination of the size of the “universe” of policy reform programs:

	TYPE OF PROGRAM	NUMBER OF CASES
A.	Conditioned Assistance	
	CASH TRANSFERS	118
	CIPS	15
	PL 480	21
B.	Unconditioned Assistance	
	FUNDED PROGRAMS, i.e., unconditioned Cash Transfers CIPs, PL480 programs and conventional projects	247
	Unfunded POLICY DIALOGUE	25
		---
TOTAL:		426

**A representative (rather than random sampling) approach**

to selecting cases to examine,

considering primarily:

- o The TYPE OF PROGRAM, and**
- o GEOGRAPHIC DISTRIBUTION**

**And an approach to collecting information about all**

**of the factors which USAID could and could not control**

**as well as the outcomes in which it was interested:**

- o PHASE I -- a DESK STUDY of EXISTING DOCUMENTS, that sought all of the pertinent information such documents could provide**
- o PHASE II -- a field QUESTIONNAIRE sent to KEY PERSONNEL who worked on specific policy reform program and could verify information found in documents as well as provide answers that could not be found in documents.**

As the evaluation moved through each data collection phase, the method of counting cases changed and the number of cases considered declined:

- o The system for counting shifted to pull together cases of each type, irrespective of whether they were conditioned.
- o The number declined for each type included at each stage partly as a function of the availability of information. There was very little information on most PL 480 programs and almost none on "policy dialogue" experiences.
- o Phase II cases were selected to optimize recall -- the vast majority (50 cases) were not scheduled for completion until after FY 1992. As the case listing for Phase II suggests, policy reform programs using PL 480 tended to be popular earlier in the study period.

	PHASE I	PHASE II
CASH TRANSFERS	61	29
CIPS	7	4
PL480	62	15
PROJECTS	10	9
POLICY DIALOGUE	<u>7</u>	<u>1</u>
TOTAL	147	58

Data analysis -- began with an effort to profile the cases included in the study:

	PHASE I	PHASE II
<b>By bureau:</b>		
LAC	46	12
AFR	63	28
ANE	38	18
<b>By source of funds:</b>		
DA	18	13
DFA	14	12
ESF	44	15
PL 480	64	17
Can't Tell	7	1
<b>By value:</b>		
Less than \$12 million	41	17
\$12 - \$33 million	50	20
Over \$33 million	48	20
Can't Tell	8	1

And an analysis of narrative responses on an important question that the study could not address through statistical analyses.

- o The design for this evaluation called for an examination of the **relationship between types of programs** (i.e., cash transfer, CIPs, PL480, projects and policy dialogue) and **program effectiveness, as well as the efficiency**, which the study defined as the time USAID spends implementing policy reform programs.
- o As soon as the “universe” of policy reform programs was defined, it was clear the study would have **difficulty addressing this question using statistical tools.**
  - There were **too few cases in the “universe” of policy reform programs using used CIPs, projects and policy dialogue as their delivery approach.**
  - The study’s Phase I and II samples reflect this problem -- they could not “fix” it.
- o Nevertheless, **narrative responses** from the Phase II questionnaire **paint a clear picture.** A majority of the respondents who answered questions about choices of program type indicated that:
  - They **weigh the alternatives** when developing a policy reform program.
  - They **prefer Cash Transfers** to other modalities, and so do the host government with whom they work:
    - \* **Cash Transfers are quick disbursing**
    - \* **They can be conditioned -- and conditionality is believed to increase the leverage needed to bring about policy reforms.**
    - + **PL 480 can also provide useful leverage, but only when host governments need food.**
    - \* **They are efficient with respect to the demands they make on USAID staff time, especially as compared to CIPs and PL 480 programs.**

And moved

through a simple bivariate analysis during Phase I

to a multivariate analysis in Phase II

In a study with so many variables, a large number of which take a "yes/no" form:

- o **Multivariate analysis** -- or more specifically -- a regression model was to be preferred to the analysis of one or two variables at a time:
  - To detect interrelationships among variables, and
  - To determine which variables had the greatest impact on the outcomes of interest.
- o **Factor analysis** -- or the clustering of many variables into a few composite variables, or "**principal components**" -- was a prerequisite for a reasonable regression analysis.
- o **Logistical regression** -- which makes possible the multivariate analysis of discontinuous (yes/no) variables -- was the tool of choice, given the nature of the study's data.

The complex variables developed  
through the **principal component analysis**  
focused on four types of information about programs:

- o Their structural program characteristics and the nature of the country situations in which they were carried out;
- o Host country involvement in and commitment to the program, i.e. "ownership";
- o The capacity of all involved to carry out policy reform programs, and
- o U.S. influence in this situation.

**SIMPLE VARIABLES EXAMINED TO CREATE  
COMPLEX VARIABLES (PRINCIPAL COMPONENTS)**

**o PROGRAM CHARACTERISTICS**

The simple variables examined in this principal component analysis included: funding source; program cost; the use of conditionality and the number of tranches involved in conditioned programs; whether the program was a loan or grant; the use of special financial arrangements, e.g., separate dollar accounts, trust funds and local currency; the existence of delays in program implementation; the sector addressed by a program and whether macroeconomic policy reforms were included; the approach USAID used to manage the program, i.e., in-house or through contractor/grantees; the host country's GNP level and its dependence on other donors; and the time frame during which the program was carried out, i.e., early 1980s, late 1980s, early 1990s

**o OWNERSHIP**

Variables examined in this principal component analysis included: the locus of initiative for the program; political support; aspects of the program itself that promote popular support as well as foster government support for reforms; political sensitivity of the program; support or the lack thereof within key government ministries; the degree of host country consensus about the problems to be addressed; and the level of USAID staff involvement in building host country "ownership".

**o CAPACITY**

This principal component analysis examined the following simple variables: previous experience; host government capacity; the capacity of contractor/grantees; the use of English and other languages in program discussions and documents; donor coordination, and conflict among donors.

**o INFLUENCE**

Variables examined in this analysis included: the existence of commercial, historical or political ties between the U.S. and the host country; U.S. influence on macroeconomic and sectoral policy in the country; the priority the USAID mission assigned to the program and the rank of the U.S. among donors.

## IMPORTANT COMPONENTS (COMPLEX VARIABLES)

The results of the principal components analysis identified three important components (or complex variables) for each of the four types of information examined.

Taken together, the important components in any information area explain more than 50% of the variance in the simple variables examined in each principal component analysis

## PROGRAM CHARACTERISTICS

The important complex variables (or components) that emerged from a principal component analysis of information in this area include:

- |             |       |   |
|-------------|-------|---|
| Component 1 | ----- | Conditioned, grant funded programs, involving multiple tranches, that were funded through sources other than PL 480.  |
| Component 2 | ----- | Unconditioned programs, of recent vintage, that involved contractor/grantees as implementing agents, which were often DA funded and did not involve local currency. |
| Component 3 | ----- | Programs in which macroeconomic policies were a concern, carried out in countries with relatively high GNP levels and a low dependency on foreign donors.           |

## OWNERSHIP

The important components that emerged in this information area were:

- |             |       |  |
|-------------|-------|--|
| Component 1 | ----- | Host government involvement from the beginning, little disagreement about the nature of the problems to be addressed and a strong sense of government commitment to the program. |
| Component 2 | ----- | Non-controversial programs on which there was strong internal government consensus and an absence of internal opposition   |
| Component 3 | ----- | USAID initiated programs which, while not politically sensitive, were met with indifference or opposition from the host government.  |

## CAPACITY

- |             |      |  |
|-------------|------|--|
| Component 1 | ---- | Excellent donor coordination   |
| Component 2 | ---- | Adequate contractor/grantee capabilities   |
| Component 3 | ---- | Uncomplicated programs in fields in which the USAID mission had prior experience, and host country capabilities were considered adequate |

## INFLUENCE

- |             |      |  |
|-------------|------|--|
| Component 1 | ---- | Programs which were not the top priority of the USAID missions undertaken in situations where the U.S. does not have a strong influence on macroeconomic or sectoral policy decisions. |
| Component 2 | ---- | Programs in countries without strong historical, political or commercial ties to the United States   |
| Component 3 | ---- | Top mission priority in countries where the U.S. does not have a strong influence on macroeconomic or sectoral policy decisions.   |

**RESULTS OF A LOGISTICAL REGRESSION  
THAT EXAMINED PROGRAM EFFECTIVENESS**

Policy reform programs tend to achieve their objectives, in their original form, under the following conditions:

- o Adequate contractor/grantee capabilities exist (Capacity 2)
- o Programs are uncomplicated, in fields in which the USAID mission had prior experience, and host country capabilities were considered adequate (Capacity 3), and
- o Host government has been involved from the beginning; there is little disagreement about the nature of the problems to be addressed and a strong sense of government commitment to the program. (Ownership 1)

**RESULTS OF A LOGISTICAL REGRESSION  
THAT EXAMINED THE "REAL TIME" REQUIRED  
IMPLEMENT POLICY REFORM PROGRAMS**

Policy reform programs tend to **utilize a significant amount of "real" staff time** are associated with the following conditions:

- o **Host government has been involved from the beginning; there is little disagreement about the nature of the problems to be addressed and a strong sense of government commitment to the program. (Ownership 1)**
  
- o **The presence of strong historical, political or commercial ties to the United States ("negative", or the opposite of, Influence 2)**
  
- o **Top USAID mission priority in countries where the U.S. does not have a strong influence on macroeconomic or sectoral policy decisions. (Influence 3)**

**RESULTS OF A LOGISTICAL REGRESSION  
THAT EXAMINED THE ELAPSED TIME REQUIRED  
IMPLEMENT POLICY REFORM PROGRAMS**

Policy reform programs tend to involve a significant amount of "elapsed" time are associated with the following situations:

- o **Unconditioned programs, of recent vintage, that involved contractor/grantees as implementing agents, which were often DA funded and did not involve local currency. (Program Characteristics 2)**
  
- o **Macroeconomic policies were a concern, carried out in countries with relatively high GNP levels and a low dependency on foreign donors. (Program Characteristics 3)**
  
- o **Adequate contractor/grantee capabilities exist (Capacity 2)**

## RELATIONSHIPS BETWEEN TIME AND EFFECTIVENESS

- IN THE LONG RUN, NEITHER TIME SPENT ON PROGRAM IMPLEMENTATION NOR DELAYS AFFECTED WHETHER PROGRAMS ACHIEVED THEIR OBJECTIVES.
  
- SIGNIFICANT HOST COUNTRY INVOLVEMENT --- PARTICIPATORY DEVELOPMENT -- WAS ASSOCIATED WITH BOTH GREATER EFFECTIVENESS AND HIGHER DEMANDS ON USAID STAFF TIME.
  
- ADEQUATE -- BUT NOT GREAT -- CONTRACTOR/GRANTEE CAPABILITIES WERE ASSOCIATED WITH BOTH PROGRAM EFFECTIVENESS AND RELATIVELY LONG IMPLEMENTATION PERIODS.

RECOMMENDATIONS FROM THE FIELD

**IF THEY COULD DO IT ALL OVER AGAIN,  
USAID STAFF SAY THEY WOULD:**

**Improve Effectiveness by:**

- o Developing better coordination with the host government and key stakeholders, including beneficiaries and other donors.
- o Reducing the complexity of programs by reducing the number of conditions or streamlining management.

**Increase "Ownership" by:**

- o Increasing stakeholder participation during both design and implementation.
- o Change the organization or emphasis of a program to better respond to host country government goals and objectives.

**Increase Efficiency and Reduce Staff Time by:**

- o Delegate more of the work to FSNs, PSCs or contractor/grantees
- o Promoting administrative changes in USAID -- streamlining its operations.