

## NPA: Salient Themes and Issues

### Introduction

This paper synthesizes information from a recent review of the literature on Africa Bureau experience with non-project assistance (NPA).<sup>1</sup> *The non-project assistance activities summarized in this paper took place for the most part between the mid-1980s and the mid-1990s. Policy conditionality was a new assistance tool early in that period; much of it modeled after International Monetary Fund structural adjustment programs. These programs began with the premise that the macroeconomic reforms stipulated in the IMF or World Bank programs entailed real costs to the reforming country, and the costs should be partially offset by program payments.*

A review of the material shows that NPA has been used by the Africa Bureau in several sectors to support policy reform.<sup>2</sup> *NPA budget support is always targeted at the sector level reforms, is disbursed after reforms have taken place, and is not linked to specific uses of funds. In addition, where economic distortions or natural disasters have created a foreign exchange shortage, NPA can be used to provide NPA-type balance-of-payments support.*<sup>3</sup> Despite the diversity of program and sectoral reform measures involved, commonalities do exist in terms of problems and obstacles encountered in NPA programs. These can be divided into three general categories.

The first category involves problems and obstacles that emerge while trying to implement NPA programs. The second category of problems emerges as a result of guidance from USAID, or from pressures associated with USAID implementation requirements. The third area concerns environmental obstacles that exist within the partner country that impede progress towards NPA goals. Given its long history of using NPA, Africa Bureau experience provides a wealth of information to identify critical issues and salient themes.

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<sup>1</sup> The author reviewed fifty-four documents, including final project evaluations in various sectors. By sector these included 4 documents in health, 13 in education, 13 in agriculture, 2 in natural resource management, 1 in electoral support, 1 evaluating budget support, and 3 regarding Commodity Import Programs (CIPs). In addition, the author reviewed 13 papers that assessed NPA both in relation to Africa Bureau experience, and more broadly within USAID and as it has been used by other donors. All documents were obtained from the Development Experience Clearinghouse (DEC) and are available to the public. A comprehensive bibliography of these sources is included/available upon request.

<sup>2</sup> AA/AFR, Constance Berry Newman. Information Memorandum: 4. "Non-project assistance (NPA) is the provision of financial resources to assist with the implementation of agreed upon sectoral or multisectoral policy, institutional or management reforms. For example, NPA can be used to build sector-level management capacity, restructure public sector institutions, or support private sector economic activity. NPA is generally used in tandem with other types of project assistance, especially technical assistance. NPA funding and policy reforms increase the impact of project assistance by creating enabling environments and more efficient systems, which ultimately promote less dependence on donor resources."

<sup>3</sup> AA/AFR, Constance Berry Newman. Information Memorandum: 4. "...depending on the purpose of the program and/or if congressional waivers have been obtained, dollars and/or local currency may not be tracked."

The paper is organized in three sections. Section One discusses the common obstacles and problems that have emerged during the course of implementing NPA. Section Two presents common problems encountered with guidance from USAID concerning NPA programs. Section Three identifies environmental factors that have hampered NPA programs. These sections are followed by a brief Conclusion.

### **Section One: Implementation Related Problems**

Difficulties with the implementation of NPA programs can be identified in four general areas. These are:

- The number and type of conditions
- The importance of in-depth analysis prior to assistance and measurement of results
- The need for a highly qualified staff in countries where institutional capacity is weak
- Underestimation of the complexity associated with NPA support, the need for time-intensive involvement by USAID staff, and the long-term nature of reform

Several problems were identified in relation to the **use of conditions**. First, while NPA is a mechanism to rapidly move needed resources to support reform, an excessive number of conditions can create delays in disbursement.<sup>4</sup> Lessons learned in the agricultural sector in Lesotho caution that the timeframe for implementing reforms under NPA should be realistic, since governments must learn to manage new and complex programs. Furthermore, NPA programs may be linked to other macroeconomic or sectoral reform programs associated with other donors. When conditions in these programs are not met, it may impact the ability of host countries to fulfill conditions in USAID supported programs.<sup>5</sup> When donor governments have complementary programs, reform has been enhanced. When donors disagree over issues concerning host government compliance with conditions, reform can be diluted.<sup>6</sup>

A related problem is that of attribution. When there are several donors working in the same sector to support reform, it is difficult to attribute progress to any single actor. As one review of efforts to support girls' education noted, "sectoral reform may be the work of so many actors that it is frequently impossible to assess a single actor's contribution in

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<sup>4</sup> Magistro (1996: ix) in his review of NPA cites this problem, noting that delays occurred because of the number of conditions needed to be reviewed as well "an emphasis on legalistic procedures to measure the desired outcomes. Donaldson (1994:15) notes that in Niger the "inclusion of conditionality related to many policy areas within the same tranche results in slowing the pace of reform to the rate of progress of the slowest elements of the tranche."

<sup>5</sup> DeStefano and Tietjen, 1996:21.

<sup>6</sup> These are the observations of Tietjen, DeStefano and Hartwell (1994:64) in their evaluation of NPA funding to the education sector in Africa.

terms of overall sectoral outcomes, except to state that it was part of a reform effort that--in sum---produced certain system reforms that led to improved student outcomes.”<sup>7</sup> While it may be difficult to tie USAID support to specific outcomes, this review also argued that USAID Education Sector Support (ESS) programs helped put girls’ education on the agenda of education reform, assisted in defining and developing a policy framework for girls’ education, and created advocates within ministries, who supplied critical funds and advocacy. The successful use of NPA to keep issues on the agenda is echoed in other sectors.

A second overarching problem with conditions involves flexibility. Policy reform is often unpredictable. As a result “conditions precedent” should be flexible enough to respond to political or macroeconomic changes. Lack of flexibility leaves programs vulnerable to respond to changes in the external context. Experience in the health sector in Niger suggests that it wasn’t possible to successfully concentrate on more than two to three areas at any given time.<sup>8</sup> In addition, the program structure should not be so rigid that the failure of the government “to meet any single benchmark negatively affects program funding and implementation.”<sup>9</sup> One review of the health sector states that it is the balance between flexibility and specificity that is difficult to achieve, but “perhaps the key to the development of effective NPA supported reform programs.”<sup>10</sup> A review of NPA support to the education sector cautions of the need to establish a middle ground between disbursement and cancellation of a program. At the same time, it is necessary to acknowledge that for conditionality to work non-disbursement must be a possibility.<sup>11</sup>

A third problem involves ownership and support for reform. The local ownership of conditionality was identified as a key element in the success of NPA programs. Without ownership, the focus tends to be on compliance with the individual condition, rather than the overall goal of internalizing and “assuming control of and responsibility for the reform process.”<sup>12</sup> For example, when NPA has been part of the Education Sector Support (ESS) approach, education ministries have used technical assistance to help them document meeting conditions, rather than to assist them in accomplishing the tasks they are reporting on.<sup>13</sup> Ownership is linked to continuity in terms of personnel. A review of programs in Niger identifies the importance of the human factor. Key players in USAID and in the Government of Niger changed frequently, and each change brought some change in the interpretation of the conditions. Also, new personnel need orientation in respect to the meaning of the reform program.<sup>14</sup> All of these factors---complexity, the unpredictability of reform, and the problems of continuity and ownership contribute to delays in using NPA funds.

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<sup>7</sup> Tietjen, 1997: 11.

<sup>8</sup> Donaldson, 1994: 15. This is also echoed by experience in Uganda, that recommends a “focus on limited and manageable policy reform objectives.” Atherton, Costello, Herlehy and Lieberman, 1991: Section 6.4.

<sup>9</sup> USAID Mission to Lesotho, 1994: 11.

<sup>10</sup> Setzer and Lindner, 1994: 31.

<sup>11</sup> DeStefano, Hartwell and Tietjen, 1995: 97.

<sup>12</sup> Magistro, 1996: viii.

<sup>13</sup> DeStefano, Hartwell and Tietjen, 1995: 99.

<sup>14</sup> Kerst, 1991: 3-4.

The importance of **pre-program analysis** was also identified in several documents. As recognized by policy guidance, there is need for additional background analysis. In order to create detailed benchmarks to evaluate progress, an in-depth understanding is necessary for these to be realistic. As one analyst notes, there may be a conflict between “NPA’s label as a quick disbursement mechanism and the slow and analytic process required for its development.”<sup>15</sup> Also, inadequate pre-program analysis can lead to unanticipated impacts on the most vulnerable members of society.<sup>16</sup> Finally, the failure to anticipate the interaction of reforms with others in the sector (or in other sectors) can lead to unrealistic expectations and conditions that may risk being unmet. As a review of African Economic Policy Reform Program (AEPRP) in six countries noted, ongoing analysis (preferably by the host country) was needed since an understanding of linkages among different actors and institutions were tentative. Further analysis was needed to “monitor and analyze preliminary results and feed that information into a redesign of the reform process.”<sup>17</sup> A review of the education sector programs noted that sector analysis “sets the stage” for program design. The authors note that “the substance and methods of design...have serious ramifications for how an ESS program performs and the results it produces.”<sup>18</sup>

Of all the problems that can hinder an NPA supported reform program, the **lack of various kinds of human capital and institutional capacity** emerged as the most consistently cited constraint. These deficits are often severe on the recipient side. Problems encountered include the lack of highly qualified staff, as well as the capacity of systems to cope with the type of reporting requirements demanded by conditions attached to NPA funding. Many reports caution that technical assistance is needed to augment the capacity of governments in their ability to undertake monitoring and evaluation.

For example, experience with ESS programs in Africa reveals that there is an “unprecedented need for educational data” that “exceeds the capacities of most ministries to collect and analyze.” Lack of capacity can also complicate the ability to evaluate the impact of NPA.<sup>19</sup> The inability to create baseline data makes it difficult to measure change. Furthermore, the institutions that most need reform are the ones that are being

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<sup>15</sup> Setzer and Lindner, 1994: 30.

<sup>16</sup> Vondal, 1988: 17-18. Vondal notes that experience with macroeconomic adjustment programs initiated by the IMF and World Bank resulted in “severe pressures on governments as people in urban capitals protest or riot against the cessation of raises or hiring in public sector jobs, the reduction or elimination of subsidies on basic goods, or the reform of tax policies.” Concern with the impacts of reforms was related to congressional legislation that directed USAID to meet the needs of the poor directly and discuss policies that safeguard human welfare. DeStefano and Tietjen (1996: 21) also note the violent student protests in Mali as a result of government cuts in subsidies and the shift in allocations to primary education.

<sup>17</sup> Lieberman, 1991: Section 3.6.2.

<sup>18</sup> DeStefano, Hartwell and Tietjen, 1995: 128.

<sup>19</sup> The difficulty in assessing the impact of NPA on policy reform was also mentioned in several reports and overviews and is referenced above in the discussion of problems of attribution. Issues include the complexity of the reform process, and difficulty separating out the impacts of other simultaneous reforms that occur within a sector, and at the macroeconomic level, from those supported by USAID. For a detailed discussion of these difficulties with ESS funding, see De Stefano, Hartwell and Tietjen, 1995: 101-111. Another discussion of these difficulties is offered by Kerst, 1991: 3.

asked to document improvement.<sup>20</sup> As another analyst notes, African states typically have weak institutional capabilities to track socioeconomic indicators. When these systems do exist, there is a lack of analytical capacity. Ministry units can be overwhelmed by new reporting requirements, and this is particularly true when there are several donors with poor coordination. Lack of institutional capacity can also slow disbursement, especially where accounting procedures are poor and procurement procedures are complex and bureaucratic.<sup>21</sup> Finally, African governments have been asked to reduce personnel in the public sector as a cost-cutting measure at a time when they are also called upon to increase human resource capacity.<sup>22</sup> Often technical assistance is part of an NPA package. However, the reliance on outside sources of expertise is an unsatisfactory resolution to the problem of capacity deficits. When technical assistance ends, have skills been transferred? In the case of Uganda, the Export Policy Analysis and Development Unit in the Ministry of Planning and Economic Development became dependent on a long-term policy advisor. There were concerns that these skills were not transferred to a counterpart in the unit.<sup>23</sup>

Another frequent finding was the recognition that **NPA was staff time intensive**. Continued support for policy reform involves the need for continuous dialogue by USAID staff with the host government. NPA produces reform when it has the support of the relevant ministries and other stakeholders in the process over time, and when there is a clear understanding of the reform process. Another consistent point was the need for NPA programs to exist in a longer-term time frame, given the long-term nature of institutional change and reform.

Setzer and Linder (1994) state that NPA “allows USAID to sustain a detailed and consistent dialogue with host governments as to their specific policy priorities for the health sector as a whole.” Lessons learned from USAID Mission to Gambia programs demonstrated the need “to couple the support of senior government officials with that of enhanced public education and opportunities for debate.”<sup>24</sup> This is echoed in USAID experience in agricultural policy reform in Cameroon, where USAID worked with the government’s ad hoc inter-ministerial Technical Supervisory Committee (TSC) to provide information about the complexities of the reform process in the fertilizer sub-sector. This role evolved to one of occasional involvement in dispute resolution among private participants, and at one point intense USAID lobbying to prevent action by a new TSC chairman that would have violated the established policy regime.<sup>25</sup> This was also

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<sup>20</sup> DeStefano, Hartwell and Tietjen, 1995: 101.

<sup>21</sup> DeStefano and Tietjen, 1996: 22.

<sup>22</sup> Magistro, 1996: v. Often technical assistance is part of an NPA package, and is intended to increase available skilled personnel and improve supporting technology. Without augmenting capacity, NPA programs experience difficulties meeting conditions and instituting reforms. This was the case in Guinea, Benin and Namibia in relation to NPA support for education reform (Tietjen, DeStefano, Hartwell, 1994: 18).

<sup>23</sup> USAID Mission to Uganda, 1994: 44.

<sup>24</sup> USAID/Banjul, 1995: 24. In their review of ESS funding, DeStefano, Hartwell and Tietjen (1995: 136-144) argue for extensive policy dialogue that takes place at all stages of a program. This avoids problems attendant in “frontloading,” where more attention is paid to initial policy analysis as opposed to implementation.

<sup>25</sup> Walker, 1994: 56-57.

the case in Uganda, where “active policy dialogue was critical for reinforcing government commitment and effecting better donor coordination, both essential to the program’s success.”<sup>26</sup> A review of NPA in the health sector found that USAID staff played a key role in catalyzing reform in Kenya, Niger and Nigeria.<sup>27</sup>

If one function of policy analysis is to generate and maintain political support for NPA reforms, a cautionary note is introduced by at least one analyst. Magistro stresses that policy reform is an inherently political process that results in winners and losers. The salient lesson is that “stakeholder interests, motivations, and political agendas should be thoroughly taken into consideration when devising participatory strategies of engagement. Some groups seriously risk sabotaging or derailing program outcomes depending on the timing of their inclusion or exclusion in policy dialogue.”<sup>28</sup>

## Section II Issues with USAID Guidance and Implementation Requirements

The reviewed material did not consistently identify any single weakness concerning USAID guidance.<sup>29</sup> Specific discussions were rare. However, these few examples may illuminate broader problems for NPA programs in relation to guidance and implementation issues. The following analysis relies on those reports where these issues are mentioned.

One area of concern involves a **lack of specificity and confusion about whether a program fell under NPA guidelines**. In a 1988 examination of Africa Bureau experience with NPA and social and institutional analysis, Vondal found that although Economic Policy Reform Programs (EPRPs) fell under program sector assistance, they also encompassed certain aspects covered under non-project assistance in USAID Handbook 4. Although USAID Handbook 4 directed those involved in policy analysis to look at guidance under Project Assistance found in USAID Handbook 3, this guidance didn’t address several issues of importance to policy reform programs and to non-project assistance. These included conducting institutional analysis of large public entities, private entities and parastatals. There was also a general lack of guidance for analysis of social and institutional issues related to privatization and reform. USAID Handbook 1 required an assessment of social costs and benefits of a program on different groups and the ability of the host country to carry out a sector strategy in terms of its political, financial and institutional capabilities. However, Vondal notes that nothing is said about the level of specificity needed.<sup>30</sup>

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<sup>26</sup> Atherton, Costello, Herlehy and Lieberson, 1991: “Lessons Learned.”

<sup>27</sup> Donaldson, 1994: 13.

<sup>28</sup> Magistro, 1996: vii.

<sup>29</sup> This is the subject of a forthcoming paper reviewing the evolution of Agency guidance in relation to NPA.

<sup>30</sup> Vondal, 1988: 18. Given African Bureau experience discussed in the previous section, it can perhaps be inferred that greater specificity is desirable.

Another case points to the **tension inherent between the specificity of any particular country circumstance, the need for flexibility** in establishing guidelines and the importance of knowing what will be approved by central management. In an analysis of NPA in Niger, Kerst (1991) has noted that the 1988 Africa Bureau Management notice on non-project assistance under the Development Fund for Africa was the most helpful document for project design. Unlike Agency guidance codified in the Handbooks, the Management Notice clarified what the Bureau wanted and what would be approved in a proposal. Kerst also argues that “Too tight, or inappropriate guidance, can distort a program design”.<sup>31</sup> The unpredictability of sector reform grants in terms of implementation may inevitably lead to periodic redesign. In an experimental environment, flexibility in approach is desirable. Kerst also distinguishes between the need for program designers to know what they may and may not do, as opposed to what decision-makers believe USAID should do. These are related but essentially distinct areas.

A third review cites the opposite problem, when a **lack of specificity** in terms of guidance can create where there are many actors that must “sign off” on a particular part of an NPA program. In the management of ESS programs in Africa, conflicts arose because of a lack of communication between “USAID’s Washington D.C. headquarters, regional offices, Missions, legal advisors, contract managers, technical advisors, and, in some cases, auditors, each of whom has his own opinion about what a certain phrase in a program conditionality ‘really’ means.” This problem was exacerbated by a lack of clear guidance and the insufficiency of guidelines that constrained the ability of field missions to respond to emerging circumstances.<sup>32</sup>

Furthermore, the review found **little guidance as to the best mix of non-project and project assistance**, and how to coordinate them. The determination of what the mix would be used different criteria. “In some cases the use of NPA was mandated by Washington. In other cases, NPA appeared expeditious for obligating large sums of money. In still others, the country situation was perceived too risky to commit large sums of non-project funds.”<sup>33</sup> The conclusion was that an insufficient NPA component risks leaving USAID unable to support difficult policy reform, which in turn risks the sustainability of projects.<sup>34</sup>

### **Section III Environmental Factors**

Environmental factors that affect NPA programs fall into three categories:

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<sup>31</sup> Kerst, 1991: 6.

<sup>32</sup> DeStefano, Hartwell and Tietjen, 1995: 85.

<sup>33</sup> Tietjen, DeStefano, Hartwell, 1994: 19.

<sup>34</sup> Tietjen, DeStefano, Hartwell, 1994: 19.

- First, other donors have existing programs with their own benchmarks and conditions, necessitating coordination. Lack of coordination can impact USAID NPA programs.
- Second, macroeconomic conditions and rapid external changes that a government must address can make it more difficult to implement NPA programs.
- Third, the climate of support for policy reform can change. Evidence from Africa Bureau programs indicates that without support from the host country, NPA programs are less likely to achieve their goals and sustain reform.

As experience in Niger shows, USAID programs can suffer when there is **poor donor coordination**. In the health sector, a joint effort among several donors and USAID to influence government on cost recovery for drugs suffered from conflicting efforts, resulting in inaction.<sup>35</sup> A review of economic policy reform programs found that although donors “agree on general principles at high level meetings...actual implementation efforts are not always mutually supportive.”<sup>36</sup> In one example from Senegal, USAID encouraged tax reform and lower taxes, while the IMF pushed for increased government revenue and higher taxes. These differences can also create false impressions. In Lesotho, IMF willingness to continue funding despite failure to meet the timetable for an agricultural reform program led members of the government to believe they could re-negotiate parts of the USAID sponsored program.<sup>37</sup>

Differences may also occur in relation to technical assistance components, where donors may have different approaches and philosophies in providing technical assistance.<sup>38</sup> Also, combined donor staffing of a management team can be problematic. In one USAID project, USAID consultants were part of management team supervised by a World Bank funded managing director. Consultants often voiced disagreement with the managers’ policies. The evaluation concluded that if the “entire team had been funded by one donor with one acknowledged Chief of Party, such disagreements may not have arisen.”<sup>39</sup>

**Changes in the macroeconomic environment** and other unanticipated problems may also frustrate NPA programs. The environment surrounding government activity may be unstable for a number of reasons. For example, The Gambia experienced a coup d’etat in 1994, the CFA franc devaluation and border closure by Senegal in 1993, and a higher than anticipated rate of population growth. Although a final evaluation was positive about progress made, the report expressed uncertainty regarding whether there was a sufficient level of institutionalization to withstand these stresses.<sup>40</sup> Similarly, in Mali lags in economic growth contributed to the inability of the government to meeting sectoral budgetary targets. Other crises can also impact the implementation of measures associated with NPA programs. Staff resources in government of Lesotho were diverted to administering drought relief programs.<sup>41</sup> In Niger, “virtually all government and program activity ceased during a National Conference (July-November 1991) that

<sup>35</sup> Donaldson, 1994: 14.

<sup>36</sup> Aid Evaluation Highlights No. 7, 1992.

<sup>37</sup> USAID Mission to Lesotho, 1994: 8.

<sup>38</sup> DeStefano, Hartwell and Tietjen, 1995:84.

<sup>39</sup> Witthans, 1994: Section 10.

<sup>40</sup> USAID/Banjul, 1995: 23.

<sup>41</sup> USAID Mission to Lesotho, 1994: 8.

defined the steps to be undertaken during a transition to democratic elections.” Affecting NPA programs in the health sector.<sup>42</sup>

Another problem concerns proof of performance. Although concern might also focus on corruption, particularly in relation to a situation where funds are transferred directly to a government budget, very little was directly referenced in the sources reviewed. The concrete example was the embezzlement of local currency funds in Togo.<sup>43</sup> The proof of performance problem can also be a result of weak bureaucratic capacity. As one review noted, there is a “traditionally large discrepancy between budgeted amounts and actual expenditures....where funds can evaporate on the long bureaucratic journey to the classroom.” Documents needed for the tranche review process also experienced long delays in making their way to the central ministry.<sup>44</sup>

The **climate of support for policy reform** can change depending on domestic circumstances. NPA reforms may progress when domestic political costs are low; but once these costs increase support for reform may lessen. As discussed above, a consistent theme was the need for USAID to engage in a continuous policy dialogue with members of the host government in order to support reform efforts. In an assessment of Economic Support Fund (ESF) transfers to Senegal evaluators stated that budget support from a variety of sources including World Bank structural adjustment loans (SALs) and Caisse Centrale pour la Cooperation Economique (CCCE) credits allowed the government to either avoid or postpone policy reforms considered essential by donors.<sup>45</sup> Changes in political leadership may also alter support for reforms. In Lesotho a new military government hesitated to take unpopular measures, while donor support for a reform program was contingent on these same measures. This created tension and contributed to the delay in implementation of structural reforms.<sup>46</sup> A review of health sector reform in Africa cites the opposition of user groups to user fees and privatization reforms as common obstacles.<sup>47</sup> As one review noted, NPA works best when the reform effort is government owned.

### *Conclusion*

*This paper has reviewed salient issues as identified by assessments of NPA and evaluation and review documents. In extracting lessons learned from individual NPA activities in the 1980s and 1990s that are relevant for NPA design work today one must take note of the evolution in thinking about donor support for policy reform. As experience with conditionality grew donors recognized the central importance of the host government’s commitment to reform, often referred to as “political will.” As discussed*

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<sup>42</sup> Donaldson, 1994: 11.

<sup>43</sup> USAID, 1993: Section 3.

<sup>44</sup> DeStefano and Tietjen, 1996: 23.

<sup>45</sup> TvT Associates/USAID Mission to Senegal, 1989: 40.

<sup>46</sup> USAID Mission to Lesotho, 1994: 8.

<sup>47</sup> Donaldson, 1994:11.

*above, the difficulties in judging or measuring “political will” as part of the design effort and the low impact of programs that did not have strong host government support, led development experts to suggest alternative designs. Directing financial support to countries implementing their own strong and realistic reform programs without linking disbursements to negotiated future reforms is one frequent suggestion. This material demonstrates many examples of success in the use of NPA funds by USAID, when complexity and uncertainty in the environment have been addressed to result in effective support for the reform and development efforts of host countries.*