



USAID Development Information Services

Memorandum

To:

From: Tina Blumel

Date:

Re: NPA Review paper--DRAFT

A BRIEF REVIEW OF NPA and USAID EXPERIENCE

What is NPA?

Non-project assistance (NPA) covers a range of different types of programs within the donor community. In USAID, non-project assistance (NPA) has been defined in a recent Africa Bureau Information Memorandum as the provision of financial resources to assist with the implementation of agreed upon sectoral or sector-level management capacity, the restructuring of public sector institutions or in support of private sector economic activity. It is generally used in conjunction with other types of project assistance, especially technical assistance.¹ 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. It is often equated to "budget support," "balance of payments support," "program assistance," or "cash transfers."²

The 1996 USAID "Policy Paper: Program Assistance" further clarifies the distinction between NPA and other types of assistance as being the manner in which USAID resources are provided. Under NPA, USAID provides a generalized resource transfer, either in the form of foreign exchange or commodities, to the recipient government. This contrasts with other types of assistance, in which USAID finances specific inputs. These can include assistance such as technical assistance, training, equipment, vehicles, capital, or construction. Also, the paper states that "(t)his distinction parallels the distinction in law and previous USAID usage between project and non-project assistance."³

The policy paper makes a further distinction between sector program assistance (SPA) and balance of payments and budget support (BPB). The first is designed to promote medium- to long-term "increases in production or efficiency in a specific economic sector or sectors." BPB, on the other hand, in "limited cases authorized by law is designed to support short- and medium- term economic or political

¹ Catherine Corson, AFR/DP. "A Review of the Africa Bureau's Use of Non-Project Assistance in Light of the Changing Nature of Development Assistance to Africa." January 25, 2002, p. 26.

² AA/AFR, Constance Berry Newman. "Information Memorandum: Non-Project Assistance," February 2002. p. 4.

³ Bureau for Program and Policy Coordination, USAID. "Program Assistance" February 1996, p. 2. This paper is classified as "Additional Help" in the ADS system.

stabilization through measures which address immediate gaps in the country's balance of payments or budget."⁴

Other programs may also incorporate NPA. One example is Sector Wide Approaches (SWAs), a coordinating mechanism in which all funding for a sector supports a single sector policy and expenditure program. Donors can participate by selecting particular projects identified by the host country, or through program assistance, cash transfers, or budget support depending on their preference.⁵

Finally, recent donor experience in Uganda has involved yet another type of assistance in the form of direct budget support programs. These refer to the "channelling of donor funds to a partner government using its own allocation, procurement, and accounting systems."⁶ As defined by a recent DFID report, General Budget Support (GBS) refers to a situation in which any conditionality is focused on policy measures related to the overall budget priorities. Funds are nominally accounted for, but there is no limitation on where they can be spent. In Sectoral Budget Support (SBS) programs, aid is earmarked to a specific sector or sectors, and conditionality refers to these sectors.

USAID's Experience with NPA

Much of USAID's recent experience with NPA has been in Africa. According to a recent Africa Bureau paper, as of January 2002, Africa Bureau was the only Bureau that used NPA. Also, Africa Bureau is the only bureau to use DA funds for these transfers.⁷ In terms of program type, currently the "most extensive use of NPA in Africa Bureau projects involves budget support provided via local currencies that are generated either under dollar-disbursing programs or pursuant to commodity sales."⁸ Programs have included work in the agriculture and education sectors, as well as health and trade and investment. Other Bureaus have also used cash transfers and commodity import programs (CIPs) under ESF and SEED funding, which Africa Bureau documents refer to as "NPA-like" transfers.⁹

As the 1996 "Policy Paper: Program Assistance" makes clear, program assistance is not exclusively in the form of budget support.¹⁰ However, the "most extensive use of NPA in Africa today is budget support provided via local currencies that are generated either under dollar-disbursing programs, or pursuant to commodity sales."¹¹ Furthermore, where budget support is used in USAID's Africa programs, it is always directed at sector level reforms, and is disbursed after sector level policy, institutional, and management reforms have taken place.¹² Subject to the purpose of the program and whether congressional waivers have been obtained funds disbursed to sectoral support programs may not be tracked by USAID in the recipient's budget. As such, Africa Bureau does not require any monitoring on the part of the host government.¹³

⁴ Ibid. Current Africa Bureau practice does not classify balance-of-payments support as NPA.

⁵ Africa Bureau. "SWAs: A Mega-talker." April 12, 2002, p. 3.

⁶ Oxford Policy Management and the Overseas Development Institute. "General Budget Support Evaluability Study Phase I Draft Synthesis Report." Report to the UK Department for International Development (DFID), 17 November 2002, p. 9.

⁷ Catherine Corson, pp. 26-27.

⁸ Ibid.

⁹ Ibid.

¹⁰ Bureau for Program and Policy Coordination, USAID, p. 2.

¹¹ Corson, p. 26.

¹² Newman, p. 4.

¹³ Ibid.

Effectiveness of NPA

: Non-project assistance has been frequently used by USAID as part of programs to support government efforts at implementing policy reform. USAID credits NPA with having:

- Influenced government policy and budgetary expenditures,
- Leveraged other donor resources,
- Reinforced the sustainability of targeted policy, institutional and management reforms, and
- Strengthened expenditure systems.¹⁴

A recent review of USAID NPA-related documents examined 54 papers, reports and evaluations to identify success and obstacles to implementation in its use.¹⁵ The majority of these documents were related to Africa Bureau experience. The review provided a mixed picture concerning the effectiveness of NPA programs. Of those that were evaluations, several reported at least partial to good success in reaching program goals with the use of NPA funding, in terms of supporting the implementation of a reform agenda by host governments and progress towards defined goals within the sector. While there were positive assessments of the value of NPA support, many documents noted the time and staff intensive nature of using NPA as a funding mechanism. In addition, the pace of government implementation was often slower than anticipated due in part to weak recipient institutional capacity. Although initially envisioned as a "quick-disbursing" form of aid, this proved not to be the case for these reasons.

There is less information regarding the effectiveness of budget support programs. A recent report sponsored by DFID on the GBS program in Uganda provides an initial indication of effectiveness.¹⁶ Once again the results are mixed. According to this analysis, a general budget support program should enhance government control over externally funded activities and resources, strengthening relevant government agencies as "drivers" of resource allocation. The report found that there is some evidence that this is the case, but it is seen mostly in relation to the way line ministries relate to finance ministries and donors. Another claimed benefit of GBS is an improvement in democratic accountability, as recipient states spending makes its way through an officially sanctioned budget process. However, it is too early to say whether the program has improved democratic accountability, although the report suggests the indication of incremental improvements.

Other factors examined in the report include the following. The success of a GBS program relies in part on donor coordination and agreement surrounding the Poverty Reduction Strategy Program (PRSP). This agreement entails donor readiness to forego conditions, the fulfillment of which may delay funding transfers. However, in Uganda donor support of the process weakened, as some donors threatened to withdraw funds in relation to Ugandan foreign and domestic policy actions. This also had the effect of creating uncertainty in terms of funding predictability. Another important claimed aspect of GBS is its ability to increase allocative efficiency such that spending more closely reflects government priorities. This was found to be the case in Uganda. The other claimed benefit of GBS was a reduction in transaction

¹⁴ Ibid.

¹⁵ Christina Blumel, USAID Development Information Services, Academy for Educational Development "Overall NPA Assessments." April 15, 2002.

¹⁶ Oxford Policy Management and the Overseas Development Institute. "General Budget Support Evaluability Study Phase I Draft Synthesis Report." Report to the UK Department for International Development (DFID), 17 November 2002.

costs in relation to providing aid, with less monitoring necessary on the part of donors. This benefit has not yet materialized, due to the need to adapt to new meeting styles and methods on the part of donors¹⁷

Factors Impacting NPA Effectiveness

In USAID's experience, several factors can limit the effectiveness of NPA programs. These fall into two general categories: implementation related problems and external factors.

In the first category, past NPA implementation has been affected by difficulties with conditions. When conditions are numerous or linked to other macroeconomic or sectoral reform programs associated with other donors, delays can occur that affect USAID supported programs. Conditions may not be met or only partially met creating delays. In addition, donors need to strike the right balance between specificity in conditions, and flexibility in relation to meeting those conditions. Policy reform can be unpredictable leading to the need for program adjustment, with the need for a middle ground between disbursement and program cancellation. Finally, government ownership of reform has been cited as a key element in the success of NPA programs.¹⁸

Implementation of NPA programs also benefits from pre-program analysis, including background analysis. Given the complex policy environment in which NPA programs exist, analysis is needed to acquire an understanding of the environment and how reform measures may impact different actors, other programs and society. Also, NPA programs often suffer from a lack of institutional capacity on the part of recipient governments. These include a lack of qualified staff, and the capacity of systems to cope with the reporting requirements demanded by the conditions attached to NPA funding. In many cases, technical assistance is needed to augment the capacity of governments to undertake monitoring and evaluation. NPA can also be staff-time intensive, with the need for planning and analysis, as well as dialogue with the recipient government.¹⁹

In terms of external factors, past USAID experience reveals that other donor programs, with different benchmarks and conditions, can impact NPA programs when there is a lack of donor coordination. Second, changes in macroeconomic and other external conditions may make it more difficult for recipient governments to implement NPA programs. Finally, the climate of support for policy reform can shift, such as when reforms impose domestic political costs, or host country government leadership changes. These factors can also affect NPA supported programs.²⁰

Conclusions

- USAID experience with NPA programs has resulted in some notable successes, including influencing government policy and budgetary expenditures, leveraging other donor resources, reinforcing the sustainability of targeted policy, institutional and management reforms, and strengthening expenditure systems.
- However, NPA programs may be time intensive to implement and can be affected by other factors such as government commitment to policy reform and institutional capacity to manage funds effectively.

¹⁷ Ibid., pp. vii-ix.

¹⁸ Christina Blumel, USAID Development Information Services, Academy for Educational Development. "NPA: Salient Themes and Issues." May 20, 2002.

¹⁹ Ibid.

²⁰ Ibid.

- Newer mechanisms of assistance, such as budget support in SWAps are currently used by USAID's Africa Bureau. A review of the emerging research on SWAps, and particularly a review of USAID Africa Bureau experience in relation to this form of NPA seems valuable for evaluating recent USAID experience with NPA.
- Finally, recent experience in Uganda with GBS assistance has provided some initial indications of the benefits and problems with this type of donor support. However, the recent nature of the experience in Uganda makes it difficult to reach conclusions without comparative evidence of other cases. Given the precondition of a successful PRSP or similar vehicle to coordinate donors and recipient, it may be difficult to find such examples. A more comprehensive review of sector approaches that use budget support (both USAID and other donors), as well as emerging cases of general budget support such as Mozambique, will in time provide more extensive conclusions regarding this form of assistance.