

PD-ABC-053

A.I.D. EVALUATION SUMMARY - PART I

17A 69035

1. BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS.
2. USE LETTER QUALITY TYPE, NOT "DOT MATRIX" TYPE.

IDENTIFICATION DATA

A. Reporting A.I.D. Unit: PROGRAM Mission or AID/W Office (ES# <u>538-90-01</u>) <u>RDO/C</u>		B. Was Evaluation Scheduled in Current FY Annual Evaluation Plan? Yes <input checked="" type="checkbox"/> Slipped <input type="checkbox"/> Ad Hoc <input type="checkbox"/> Evaluation Plan Submission Date: FY <u>90</u> <u>Q1st</u>	C. Evaluation Timing Interim <input type="checkbox"/> Final <input checked="" type="checkbox"/> Ex Post <input type="checkbox"/> Other <input type="checkbox"/>
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D. Activity or Activities Evaluated (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report.)

Project No.	Project /Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
538-0141-02	Dominica Structural Adjustment Program I	1987	9/88		\$1.5 mil
538-0141-03	Dominica Structural Adjustment Program II		5/90		\$1.642 mil
538-0141-01	Grenada Structural Adjustment Program	1987			\$5.0 mil
538-0096	PMPP Policy Reform Component	1985	9/89		\$2.5 mil

ACTIONS

E. Action Decisions Approved By Mission or AID/W Office Director		Name of Officer Responsible for Action	Date Action to be Completed
Action(s) Required			
<p>Clearances:</p> <p>A/C/PRM/ECON: Nick Mariani <i>NM</i></p> <p>A/D/DIR: John Wooten <i>JW</i></p>			

(Attach extra sheet if necessary)

APPROVALS

F. Date Of Mission Or AID/W Office Review Of Evaluation: _____ (Month) _____ (Day) _____ (Year)

G. Approvals of Evaluation Summary And Action Decisions:

Name (Typed)	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
	Mary C. Ott, PRM		Darwin Clarke	Aaron Williams
Signature	<i>Mary C. Ott</i>		<i>Darwin Clarke</i>	<i>A.S. Will</i>
Date	10/19/90		11/24/90	

ABSTRACT

H. Evaluation Abstract (Do not exceed the space provided)

RDO/C policy reform programs consisted mainly of the Fiscal Reform Component of the Public Management and Policy Planning Project (PMPP) and the Structural Adjustment Programs in Dominica and Grenada. The ultimate objective of the US\$2.5 million PMPP Fiscal Reform component was to create an environment to support private sector growth in Grenada.

Under the Dominica Structural Adjustment Program I and II, and the Grenada Structural Adjustment Program the total of sum of US\$8.142 million was authorised for the purpose of assisting the governments of both countries in improving policy planning capabilities, the governments' financial management and encouraging private sector growth.

A three person evaluation team found that AID used different programming methods in approaching policy reform in each country. In Dominica AID focussed on improving an existing system, whereas in Grenada it implemented new and drastically different policies.

Although the achievements of the Policy Reform were varied in each country, both Dominica and Grenada managed to reduce their fiscal deficits and experienced strong economic growth.

Dominica experienced the following:-

- *Increased efficiency in the administrative systems and procedures in the customs and inland revenue department.
- *A tax structure with fewer and lower rates and a broader base, which generates more revenue.
- *Strong economic growth - increased exports, reduced domestic borrowing, increased agricultural production were recorded.
- *Private Sector involvement increased with a major boom in private construction and private agricultural production.

In Grenada various tax reforms were implemented, among them the introduction of a Value Added Tax (VAT), in an effort to close a recurrent budget deficit. However, many problems were encountered with the introduction of new tax reforms, and it did not achieve success. Among the basic problems were: (i) The implementation was too rapid - no trial, phase-in or training. (ii) Inadequate business records and training of Government staff. To improve the efficiency of the Civil Service and to limit public sector wage increases, a Manpower Control and Monitoring Plan was implemented.

A lesson learned is that short-term technical assistance programs cannot be expected to satisfy long-term institution-building needs, nor can the assumption be made that achievements will be maintained. It is therefore necessary to introduce a civil service reform program designed to develop and maintain the skills of Government employees.

COSTS

I. Evaluation Costs

1. Evaluation Team		Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. \$)	Source of Funds
Name	Affiliation			
Joseph Lieberman	CDIE/PPC	24 days		OE
W. Donald Bowles	Consultant	30 days	US\$16,151.00	Project
E. LeRoy Roach	Consultant	24 days	US\$ 8,404.00	Project

2. Mission/Office Professional Staff Person-Days (Estimate) <u> 5 </u>	3. Borrower/Grantee Professional Staff Person-Days (Estimate) <u> N/A </u>
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A.I.D. EVALUATION SUMMARY - PART II

SUMMARY

J. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)

Address the following items:

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| <ul style="list-style-type: none"> ● Purpose of evaluation and methodology used ● Purpose of activity(ies) evaluated ● Findings and conclusions (relate to questions) | <ul style="list-style-type: none"> ● Principal recommendations ● Lessons learned |
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Mission or Office: RDO/C, PROGRAM	Date This Summary Prepared: OCTOBER 1990	Title And Date Of Full Evaluation Report: Impact Evaluation of AID Policy Reform Programs in Dominica & Grenada- Jan. 1990
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RDO/C's policy reforms programs consisted mainly of the Fiscal Reform component of the Public Management and Policy Planning Project (PMPP) and the Structural Adjustment Programs carried in Dominica and Grenada.

The Fiscal Reform Component was designed to improve the efficiency of government operations, close a recurrent budget deficit, increase revenues and improve economic incentives. The ultimate objective was the creation of an environment that would support the growth of a dynamic private sector.

In order to achieve the above, income taxes were eliminated, new VAT and property taxes were introduced. The basic assumption was that by not taxing incomes production and employment would be encouraged, while consumption would be taxed and therefore discouraged.

The purpose of the Structural Adjustment Programs was to assist in the ongoing structural adjustment reform initiatives in Dominica and Grenada. These initiatives were aimed at improving the governments' policy planning and financial management capabilities as well as at encouraging private sector growth.

The purpose of this evaluation was to:

- a) assess AID's progress in reaching its objective of supporting improved developing country economic policies;
- b) help focus AID management attention on the programming and management issues of policy reform.

The Evaluation was conducted by a three-person team comprising Mr. Joseph Lieberman, CDIE/PPC, Mr. Donald Bowles, the American University and Mr. LeRoy Roach, Ministry of Finance and Planning, Barbados. The Evaluation methodology included visits to Dominica and Grenada, interviews with key government officials and RDO/C Project staff.

AID used different programming methods in approaching policy reform in each country. In Dominica AID focussed on improving an existing system, whereas in Grenada it implemented new and drastically different policies.

The Evaluators conclusions are as follows:

- 1) In the case of Grenada the reforms did succeed in reducing the deficit and raising needed revenue. However the economic benefits of the new taxes were not fully achieved because of structural and implementation problems such as:

SUMMARY (Continued)

- The tax changes were too drastic and implemented too rapidly.
 - The education process needed prior to the implementation of the new tax was started long after. The personnel to implement the new VAT were too few in number and inadequately trained.
 - A continual series of changes in the VAT regulation created confusion and uncertainty for private enterprise.
 - The VAT was regressive and lacked investment incentives.
- 2) The policy reform program concentrated on the development of new taxes, failing to realize that the Government of Grenada lacked the capacity to administer the old taxes, furthermore institute unfamiliar new tax procedures.
 - 3) In spite of the problems encountered with the VAT which hindered the program attaining its full potential, it allowed the Government to retain price controls on a limited number of consumer items and some essential items were not subject to VAT.
 - 4) Through the introduction of the VAT, higher income individuals and corporations were paying lower taxes on their incomes, whereas lower income groups, previously exempt from taxation, were now taxed. Although the tax reform had a reverse equity tilt, the levels of welfare and income increased for all income groups; and there is not evidence to suggest that the AID-supported reform program resulted in undue hardship to the poor.
 - 5) Although the achievements of the Policy Reform were varied in each country, both Dominica and Grenada managed to reduce their fiscal deficits and experienced strong economic growth.
 - 6) In Dominica AID, through the Structural Adjustment Program, provided technical assistance, training and computers thus increasing the efficiency in the administrative systems and procedures in the Customs and Inland Revenue Department. It also assisted in implementing a tax structure with fewer and lower rates, which provided good economic incentives and raised substantial revenues.
 - 7) Under the Civil Service Reform, staff numbers were slightly reduced by reorganizing functions and not filling vacancies. The public sector wage increases were restricted and automatic civil service wage increases were eliminated.
 - 8) Dominica experienced strong economic growth through increased exports and reduced domestic borrowing. The Agricultural sector also recorded increases in production. As a result of the now simplified tax structure, along with a public infrastructure investment program, the Government created an environment for private sector growth.
 - 9) To improve the efficiency of the Civil Service, a drastic retrenchment plan was implemented in Grenada. However, it did not have the desired effect, instead the more skilled and senior personnel in the government service departed, and it required expensive severance payments. As a result Government operations have suffered.

S U M M A R Y (Continued)

- 10) Private investment and private construction activity flourished in both countries. However, in Grenada, further development was hindered by the lack of coherence and continuity in government policies, particularly tax policies.
- 11) With regard to the Structural Adjustment programs, it is apparent that a short-term technical assistance program cannot be expected to satisfy long-term institution-building needs, nor can the assumption be made that achievements will be maintained. It is therefore necessary to introduce civil service reform programs designed to develop and maintain the skills of Government employees. Staff capabilities must be maintained and upgraded, otherwise efficiency and effectiveness will decline.

Lessons Learned

The following lessons have been noted by the Evaluators:

- * Creating new tax policies is not the solution to the problem of a weak tax institution.
- * Traditional VAT system is unlikely to succeed where tax administration is weak and no proper accounting records are available.
- * Staff education and the mobilization of public support for policy reforms are critical to success as the technical soundness of the programs.
- * A phased and sequential technique represents a better tactical approach than a major overhaul of the tax system.
- * The U.S. can encourage better developing country performance and achieve better technical balance if the country receives multi-donor support.
- * AID should not assume that developing countries share its view of the efficiency of the private sector.
- * When AID is a major donor, it should guard against the development of a client-state mentality of dependency in the recipient country.
- * When building policy and institutional capacity, AID needs to think beyond the standard project life of 4 or 5 years to possibly 6 to 10 years.

ATTACHMENTS

K. Attachments (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier; attach studies, surveys, etc., from "on-going" evaluation, if relevant to the evaluation report.)

Impact Evaluation of AID Policy Reform Programs in Dominica and Grenada - AID
Impact Evaluation Report No. 72

COMMENTS

L. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report

The Report was adequate and followed the scope of work. It included information and recommendations which were useful for new initiatives in both Dominica and Grenada.

Overall, RDO/C agrees with the recommendations and conclusions of the evaluation report. We believe however, that the differences between the Dominica and Grenada cases were not as stylized as the report would suggest in the sense that all went well in Dominica, while in Grenada the task of fiscal reform encountered obstacles. The special circumstances surrounding the 1983 U.S. intervention in Grenada and the subsequent effort to reorient the economy to private markets made Grenada a much more difficult environment to achieve reform.