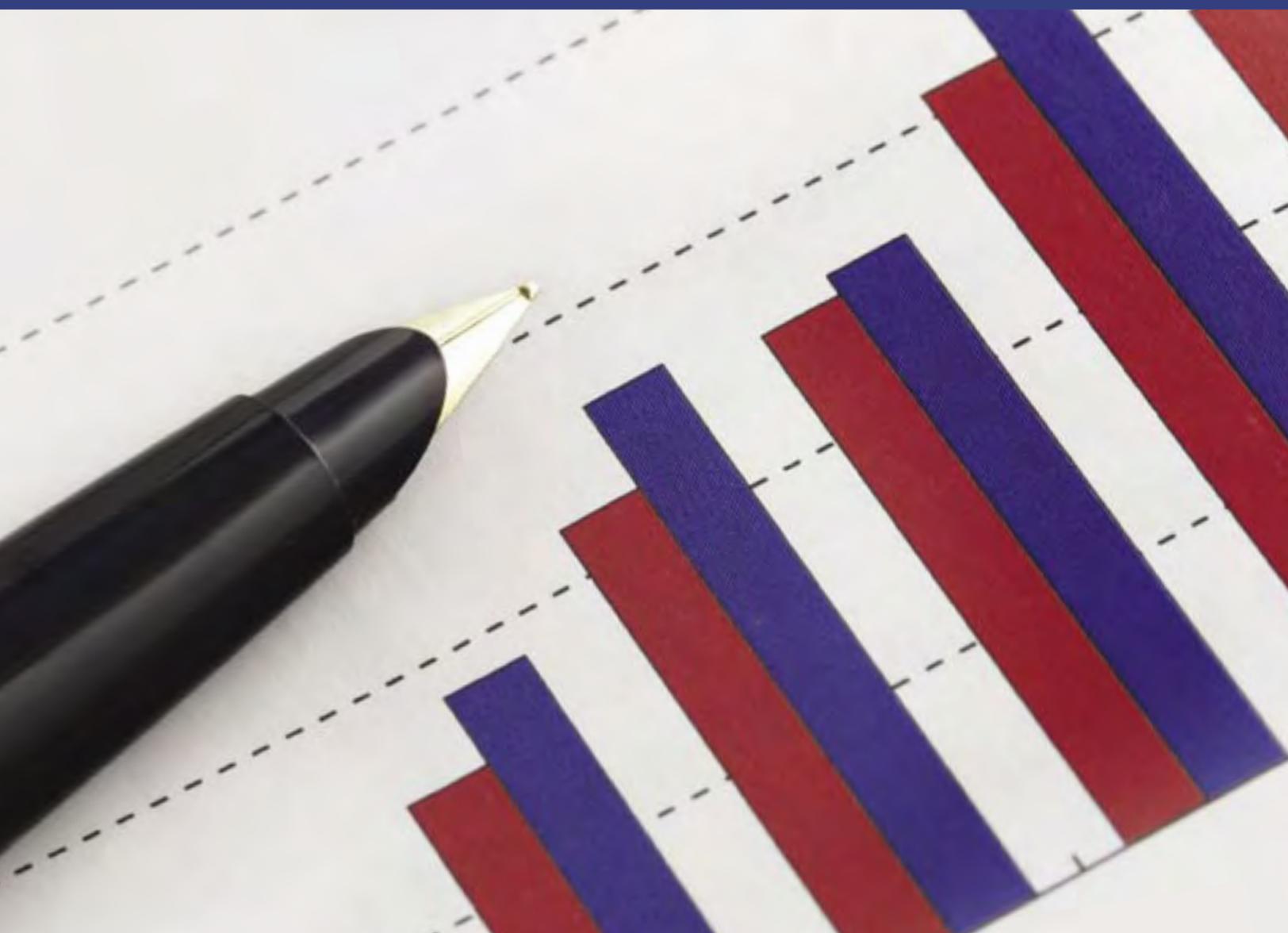




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PROGRAM ASSISTANCE FINDINGS AND RECOMMENDATIONS



This paper draws on the following country case studies:

MALAWI

General Budget Support and Sector Program Assistance: Malawi Country Case Study, Evaluation Working Paper No. 19, by Joseph Lieberson, Diane Ray, and Brian Frantz, 2004 (PN-ADA-999)

What Conditions Favor the Success of General Budget Support and Sector Program Assistance? Malawi Country Case Study, Evaluation Brief No. 12, by Joseph Lieberson, Diane Ray, and Brian Frantz, 2004 (PN-ADA-356)

MOZAMBIQUE

General Budget Support: An Alternative Assistance Approach: Mozambique Country Case Study, Evaluation Working Paper No. 18, by Joseph Lieberson, Diane Ray, and Maxine Lunn, 2004 (PN-ACW-878)

What Conditions Favor the Success of General Budget Support? Mozambique Country Case Study, Evaluation Brief No. 11, by Joseph Lieberson, 2004 (PN-ACU-999)

NICARAGUA

General Budget Support in Nicaragua: A Case Study of an Alternative Assistance Approach, PPC Evaluation Paper No. 6, by Robert V. Burke, David Colin, Aldén J. Jirón Z., and Lissette González, 2005 (PN-ADD-631)

TANZANIA

"General Budget Support in Tanzania: A Snapshot of Its Effectiveness," by Brian Frantz, 2004 (PN-ADA-029)

TIMOR-LESTE

Program Assistance: The Democratic Republic of Timor-Leste Country Case Study, PPC Evaluation Paper No. 5, by Jeff Malick, Anne Beasley, Andrew Melnyk, and Shinichi Mizuta, 2005 (PN-ADC-714)

ZAMBIA

"Supporting the Decentralized Delivery of Health Services: USAID and the District Basket in Zambia," by Brian Frantz, Herrick Mpuku, and Jason Wright, 2004 (PN-ADC-440)

This paper can be ordered from USAID's Development Experience Clearinghouse (DEC). To order or download, go to dec.usaid.gov and enter the document identification number (see front cover) in the search box. The DEC may also be contacted at 8403 Colesville Rd., Ste. 210, Silver Spring, MD 20910; tel 301-562-0641; fax 301-588-7787; email docorder@dec.usaid.gov.

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PROGRAM ASSISTANCE FINDINGS AND RECOMMENDATIONS

Anne Beasley

Bureau for Policy and Program Coordination

The findings and conclusions in this report are those of the author and do not necessarily represent the views of USAID.

Contents

Executive Summary	v
Introduction	1
Analytical Support for Recommendations	3
Conclusions	11
Bibliography	13



Executive Summary

The purpose of this report is to present findings and recommendations for situations in which the use of program assistance (also known as nonproject assistance) would be appropriate. Material for this analysis is drawn mainly from six country case studies (Mozambique, Malawi, Tanzania, Nicaragua, Timor-Leste, and Zambia) carried out by USAID in 2003 and 2004.¹

Program assistance provides a generalized resource transfer directly to a recipient government, as opposed to project assistance, which finances specific inputs, often with little involvement of the host government.

When a donor channels funds through a government's budget, it has a legitimate stake in how all relevant resources are allocated and can influence this process.

The resources can take the form of foreign exchange, local currency, or commodities, and they may be provided on either the sectoral level or the national level. The latter type of assistance, in turn, may involve

either balance of payments support or budget support.² This paper summarizes best-practice findings and makes recommendations for the use of program assistance by USAID and other donors.

Findings and Recommendations

- Program assistance can be useful when a donor aims at national-level impact. When a donor channels funds through a government's budget (whether for general or sectoral programming), it has a legitimate stake in how all relevant resources are allocated and thus can influence this process. Missions should have access to program assistance as one tool in a toolkit so that they can use it with appropriate justification.
- Host country commitment to sustainable development and good governance is critical for program assistance to succeed because such aid provides a general or undefined resource transfer, in the form of foreign exchange or commodities, directly to the recipient government, in contrast to assistance that finances specific inputs. Host country commitment

¹ Four of these studies (Mozambique, Malawi, Nicaragua, Timor-Leste) were initiated by USAID's Bureau for Policy and Program Coordination, and two (Tanzania and Zambia) were initiated by USAID's Bureau for Africa.

² USAID 1996 notes that the transfer can be in the form of foreign exchange or commodities, in the case of both sector program assistance and national-level program assistance (balance of payments support or budget support).

is likely to be higher in countries that are good performers in terms of accountability, progress in meeting development indicators, and good governance, including MCA-eligible countries.

- Because the host government's financial and management systems are used to channel and manage the funds when program assistance is used, donors have found that this approach works best when fiduciary risk (the likelihood that funds will be used for purposes other than those intended) and corruption rates are low. Appropriate financial, budget, and procurement systems, combined with commitment of the recipient government, can ease donor concerns about corruption and fiduciary risk.
- If program assistance is to be used in a country where the capacity of the host government to plan and manage its development program is inadequate, donors should provide a capacity-building mechanism, either through separate projects or as a component of the program assistance.
- When the focus is on moving reforms forward on a national level in a specific sector or sectors, such as health and education, sector program assistance may be appropriate. Both the objectives and the conditionality (policy requirements for continued aid) for such assistance will revolve around the targeted reforms.
- A sector-wide approach (SWAp) is a coordinated multidonor strategy that supports a single policy and expenditure program for a sector. It may involve a variety of tools, including project assistance aimed at sector-wide impact, and does not necessarily imply commingled (basket) funding that pools resources from multiple donors. It facilitates donor coordination and may be appropriate when donors and a host government agree on a common sectoral strategy.
- Postconflict countries are a special category. Program assistance delivering cash disbursements directly into the national budgets of postconflict countries (general budget support) can be useful for reducing fragility. However, countries that need cash infusions (e.g., Timor-Leste and Afghanistan) may not have the capacity or financial controls needed to manage funds to the standards of donors. When this is the case, it may be necessary to temporarily augment the recipient country's capacity with expatriate staff from a lead donor (or a multilateral organization such as the World Bank) so that funds are managed and used appropriately.
- Cash disbursements in the form of balance of payments support in postconflict countries can be useful, especially when the country has a large external debt and needs to reestablish economic and political stability.

Introduction

The purpose of this report is to present findings and recommendations for situations in which the use of program assistance (also known as nonproject assistance) would be appropriate. USAID divides financial program assistance into two types: sector program assistance, and national program assistance. The latter, in turn, involves either balance of payments support or budget support. The distinguishing feature of sector program assistance is that it “promotes medium- to long-term increases in production or efficiency in a specific economic sector or sectors” (USAID 1996, 2). It is often tied to or conditioned on specific policy reforms in a

Many economic governance interventions in the early postconflict period may best be carried out using program assistance.

sector. Balance of payments and budget support “may be primarily concerned with promoting economic and political stability by bridging a public sector budget and/or balance of payments shortfall” (ibid., 2).

Material for this analysis is drawn mainly from six country case studies (Mozambique, Malawi, Tanzania, Nicaragua, Timor-Leste, and Zambia) carried out by USAID in 2003 and

2004.³ While these case studies give a general overview of the use of program assistance and how it works, they are not full-scale evaluations or assessments. They do not use collected data to measure, say, impacts on poverty reduction. They are anecdotal, based primarily on in-country interviews with donors, host-government officials, and representatives from civil society. They provide a snapshot of country conditions at the time of the visits. Accordingly, although by themselves they are not adequate to serve as a basis for new policy, they can feed into a discussion on what works under specific conditions.

In addition, this analysis draws on lessons found in the Lewarne-Snelbecker report, “Economic Governance in War Torn Economies: Lessons Learned from the Marshall Plan to the Reconstruction of Iraq,” which offers insights from eight case studies in postconflict countries since World War II. These studies show how donors can address economic governance issues early on after conflict winds down or ends. Many of these types of interventions may best be carried out using program assistance.⁴

³ Four of these studies (Mozambique, Malawi, Nicaragua, Timor-Leste) were initiated by USAID’s Bureau for Program and Policy Coordination, and two (Tanzania and Zambia) were initiated by the USAID Bureau for Africa.

⁴ An example is providing funds to the budget of a postconflict country to cover operating expenses until other sources of revenue come on stream.



Analytical Support for Recommendations

Program assistance can be useful when a donor aims at having an impact on the national level. When a donor channels funds through a government's budget (whether for general or sectoral programming), it gains a legitimate stake in how all relevant resources are allocated and can influence this process. Missions should have program assistance as one tool in their toolkit so that they can use it with appropriate justification.

Missions should have program assistance as one tool in their toolkit so that they can use it with appropriate justification.

In a number of the countries studied, donors see policy dialogue with the government as a very important element of their assistance. Dialogue with donors is normally led by ministries of finance and focuses on past performance and future targets, often established within a medium-term budget expenditure framework. Participating in such a dialogue enables donors to influence policies and can be very important for smaller donors with limited resources:

- In Nicaragua, a number of donors have used a program-based approach⁵ to establish a single comprehensive development program. They believe that the success of the overall development effort, either in a particular sector or in the country as a whole, is more important than the success of a project, because if the overall effort fails, the success of a project means little (Burke et al. 2005, 8).
- In Tanzania, non-U.S. donors have used the budget review process to extend their reach and have increased impact with their resources. Even a modest contribution to Tanzania's Poverty Reduction Budget Support facility by USAID could provide enough leverage to give USAID greater influence over central government policies and budget priorities (Frantz 2004, 7).
- In Zambia, sector program assistance has given USAID a legitimate claim over how the total resource envelope in a sector is used, rather than

⁵ A program-based approach is "a way of engaging in development cooperation based on the principle of co-ordinated support for a locally owned program of development, such as a national poverty reduction strategy, a sector program, a thematic program, or the program of a specific organization" (Lavergne 2003, 4; emphasis in the original).

limiting its influence to the relatively smaller share of resources that is under its direct control (Frantz, Mpuku, and Wright 2004, 2).

- If a large number of donors are participating in general budget support (GBS) and are having serious policy negotiations with the government, USAID should consider a minimal amount of program assistance so it can become a full partner in the donor-government policy and budget dialogue (Liebersohn 2004, 7).

Host-country commitment to sustainable development and good governance is critical for program assistance to succeed because program assistance provides a generalized resource transfer in the form of foreign exchange or commodities to the recipient government, in contrast to assistance that finances specific inputs. Host country commitment is likely to be higher in countries that are good performers, including MCA-eligible countries.

In-country missions may assess commitment using criteria such as how well a country develops and follows its poverty reduction strategy plan (PRSP), how effectively it uses donor funding and its own, how it addresses difficult issues, its fiscal responsibility, how it reduces corruption, and its support for democratic institutions. For example:

- In Mozambique, the government and donors focused on results from its poverty reduction plan (PARPA) and agreed to review and revise policies when results were poor. When several education and health indicators fell short of targets, according

to a European Community report, “the government’s analysis of reasons suggested that there were demand weaknesses in education, and restricted physical access to basic health services. As a result, the next annual implementation plan for the PARPA ... included commitments to revise the primary education curriculum and to broaden the network of rural health centers” (European Community 2005, 50). Donors viewed this willingness of the government to change policies as evidence of its commitment to achieving results.

- In 2003 the Bolaños Administration in Nicaragua asked the Inter-American Development Bank (IDB) to convene a consultative group, at which it proposed a bold—and somewhat risky—program to jumpstart the economy. The plan involved reducing the growth in current spending while continuing to meet targets for social spending and increasing public sector investment in support of productive activities. This initiative was viewed by both donors and the authors of the USAID report as an example of the government’s commitment to achieving macroeconomic objectives (Burke et al. 2005, 7).
- The Nicaraguan government reasserted its leadership role in the development process by insisting, in its National Development Plan and elsewhere, on its budget and sector priorities as a basis for discussion (ibid., 28).
- In Malawi, by contrast, events during the period 2001–2004 appeared to demonstrate an absence of political

will within the government to address difficult development issues. The government’s difficulties in adhering to an ongoing IMF program significantly lessened its access to donor aid and its ability to implement its own development budget. When the government first fell off track with the IMF program, budget support donors suspended their programs, and the government financed the resultant funding shortfalls by borrowing on the domestic debt market. This drove interest rates higher, crowding out private-sector borrowers, raising the government’s debt payments, and impinging on the government’s ability to implement its poverty reduction program (Liebersohn, Ray, and Frantz 2004, 19–21).

Because host governments’ financial and management systems are used to channel and manage program assistance funds, donors have found that this form of aid works best when corruption and fiduciary risk are low. Appropriate financial, budget, and procurement systems, along with evidence of a recipient government’s commitment to openness, integrity, and development, can mitigate donors’ concerns about corruption and fiduciary risk.

Corruption is defined as the abuse of entrusted authority for private gain (USAID 2004a, 1). Fiduciary risk refers to the possibility that funds provided will be misused or stolen or that actual expenditures will diverge from authorized expenditures (Allen, Shiavo-Campo, and Garrity 2004, 10). Reducing corruption and fiduciary risk requires both commitment on

the part of the government and that appropriate financial, budget and procurement systems be in place.⁶ As Allen, Shiavo-Campo, and Garrity point out (*ibid.*, xi),

there is widespread awareness [in the donor community] that financial resources are fungible and that resources used for a specific project can effectively free up resources for another less desirable project. Thus efforts to safeguard the integrity of donor resources mean little without safeguards on the use of government resources in general.

- In Nicaragua, the World Bank conditioned the disbursements of its program structural adjustment credit on Nicaragua's taking steps recommended by three World Bank evaluations—its Nicaragua Country Financial Accountability Assessment, Country Procurement Assessment, and Public Expenditure Review. Many of the recommendations focused on successful implementation of the government's Integrated Financial Management System, as well as increasing the transparency of the procurement process (Burke et al. 2005, 15–17).
- In Tanzania, the Performance Assessment Framework (PAF) guiding the implementation of general budget support (GBS) included indicators

related to reducing corruption. A number of donors viewed the provision of general budget support as the best way for donors to confront corruption through policy dialogue, which is a GBS input. When the report was written there was no institutionalized dialogue between donors and the government on corruption because a working group had not yet been established. *However, donors using GBS do not believe that it has been associated with more leakages of funds* (Frantz 2004, 12–13).

- Corruption is identified as a problem in Tanzania, and the government has taken steps to assure that funds are not misused. The annual Public Expenditure Review (PER) in Tanzania, originally guided by the World Bank and Tanzania's Ministry of Finance, became a working group including other government representatives, donors, UN agencies, research and academic institutions, and civil society. The PER became an external review of fiscal developments and the basis for determining the extent to which the priorities articulated in the poverty reduction strategy were reflected in the budget, and that progress was made in ensuring that funds reached their intended destinations (Frantz 2004, 5–6; Allen, Shiavo-Campo, and Garrity 2004, 17).
- Even if a country has a strong financial control system on paper, if commitment to use it is not there, fiduciary risk and corruption will continue. For example, in Malawi a project to introduce an integrated financial information management system was initiated in 1996, but

eight years later the World Bank was still trying to help Malawians to install it throughout the government. Accordingly, the team was unsure that the government would effectively use the system (Liebersohn, Ray, and Frantz 2004, 24, 26).

- Although program assistance may incur risk when donors use the host government's financial management system, this does not mean that channeling the equivalent amount of assistance through projects will deliver better, more sustainable results.⁷

If program assistance is to be used in a country where the host government's capacity to plan and manage its development program is inadequate, donors should provide a capacity-building mechanism, either through projects or as a component of the program assistance.

Weak capacity of government officials at some level (e.g., ministerial, local service delivery) was recognized as an issue in all countries studied.

- Lack of capacity was identified as the greatest constraint in Zambia's system for health service delivery, a situation that points to the need for ongoing training programs (Frantz, Mpuku, and Wright 2004, 14). Much of the capacity building that has taught officials to use new financial management and monitoring systems for effective planning was provided through USAID project-type aid. The

⁶ Countries emerging from conflict pose special challenges. Program assistance was successfully used to provide budget support in Timor-Leste, where there was considerable oversight by the World Bank and expatriate technical advisors in ministries provide guidance on allocations and expenditures. See the subsection on postconflict countries (pages 7–8).

⁷ GBS donors at the Joint Evaluation Steering Group Meeting (February 2, 2005, in Brighton, England) expressed this view, stating that fiduciary risk should be viewed as one cost to be weighed against the costs of not achieving sustainable results.

Program assistance was successfully used to provide budget support in Timor-Leste, where there was considerable oversight by the World Bank and guidance from expatriate technical advisors in ministries.

existence of the district basket (see discussion in the section on sector-wide approaches, page 7) and program assistance made the project-type capacity-building support provided by USAID more effective (ibid., 18).

- At the time of the Mozambique case study, financial management and monitoring systems were being put in place that could be operated by relatively unskilled staff (with appropriate infrastructure); those users would then train additional users. The strongest capacity appeared to be at senior levels in the Ministry of Planning and Finance, while the weakest was in sector ministries and at local levels (Liebersohn, Ray, and Lunn 2004, 19).
- In Nicaragua, the health and education ministries were considered to be strong institutions at the time of the study in large part because they had benefited from extensive donor technical support, while the agriculture and public works ministries, lacking comparable technical assistance, were perceived as less effective. With the movement of many donors to GBS, responsibility for budget allocation may have shifted from the strong line ministries back to the Ministry of Finance and the Technical Secretariat, which manage the budget process. This is basically a healthy process, because it places decisionmaking

about resource use in the hands of the central government and strengthens accountability among the line ministries. However, these central ministries have had less management capacity than the ministries of health and education. USAID has implemented a technical assistance project to address these issues (Burke et al. 2005, 14, 21–22, 28–30).

- Other types of project-type aid that can enhance and complement program assistance include support for independent media and for strengthening parliament and civil society, which could provide oversight of governance at all levels.

Objectives and conditionalities for sector program assistance revolve around reforms to a specific sector or sectors, such as health and education. Such assistance may be appropriate when the focus is on moving sector reforms forward on a national level.

Sector program assistance tends to work well in sectors where there are well-defined objectives and indicators that increase accountability. Sector program assistance has been provided by USAID in the form of conditional budget support, with disbursement triggered when the host country enacts and implements institutional and policy reforms. It may

be used in tandem with project support to build capacity.

- Experience in Zambia suggests that sector program assistance can be an effective tool for supporting health sector reforms. USAID missions should be given the flexibility to decide whether using such assistance might be appropriate in light of the prevailing circumstances in specific countries (Frantz, Mpuku, and Wright 2004, 23).⁸
- In Malawi, sector program assistance funds were conditioned on specific reforms in three areas—agriculture, education, and natural resource management (NRM). The programs generally met initial one- and two-year benchmarks, but it was more difficult to meet targeted reforms in later years, leading to delays in USAID disbursements. In some cases, government commitment flagged, or out-year targets were overtaken by events; in one instance (the NRM program), the bureaucratic and legislative steps required to effect policy change were far more numerous and complex than anticipated, and USAID had to extend the program by several years. Authors of the USAID Malawi report suggested using a shorter timeframe of three to five years, for example, for such aid, rather than five to nine years (Liebersohn, Ray, and Frantz, 2004, 16–18).

⁸ Congress prohibited the use of Child Survival and Health funds to pay for sector program assistance starting in FY 1999, although programs existing before that time could be “grandfathered” in.

A sector-wide approach (SWAp) is a coordinated multidonor strategy for a sector that supports a single sectoral policy and expenditure program. It may involve a variety of tools, including project assistance aimed at sector-wide impact, and does not necessarily imply commingled (basket) funding. It facilitates donor coordination and may be appropriate when donors and a host government agree on a common strategy for a sector.

A SWAp can be a useful coordination mechanism when donors and the host government agree on a unified sectorwide policy and expenditure program. USAID tends to support SWAps by implementing supporting activities financed with instruments such as contracts, grants, and cooperative agreements, rather than pooling funds in a common basket or in the host government's budget for the sector.

- In Mozambique, USAID supported the agricultural SWAp, ProAgri, charged with increasing rural incomes. USAID used a variety of instruments, including program assistance, to support ProAgri. USAID's agricultural funds were allocated for technical assistance to the agricultural ministry and for private sector and NGO partners and activities. Other donors used GBS funds to support ProAgri (Liebersohn, Ray, and Lunn 2004, 11–12).
- In Zambia, USAID participated in a SWAp that grew out of a strong government commitment in the early 1990s to decentralize health service delivery. Eight donors and

the Zambian government pooled funds to create a “district basket” in order to increase the share of health-services funding provided to districts and, even more important, to improve the predictability of resource transfers.⁹ This predictability gave district health authorities more opportunity to plan activities according to available resources. An overall package of aid for the sector, which included a full range of financing instruments, enhanced aid effectiveness (Brian Frantz, interview with the author, March 3, 2005).

- In Nicaragua, a number of donors initiated SWAps with the ministries of Health and Education. Although at the time of the study it was too early to gauge impact, even the process of designing a SWAp increased donors' coordination—both among themselves and with the ministries' leadership. In both cases, ministry leadership was transformed from a relatively passive recipient of donor initiatives to the leader and organizer

⁹ USAID joined the district health basket in 1999, though its contributions were somewhat indirect. Originally the United States was to transfer \$2 million annually to the Zambian government for the basket, with disbursements tied to health sector indicators. These dollar disbursements were to be used to service debt Zambia owed to the U.S. government, allowing Zambia to put an equivalent amount of its own currency into the district basket. However, under an HIPC agreement approved in December 2000, Zambia was granted debt relief, removing the need for debt service. The USAID agreement was therefore amended so that the U.S. dollars USAID disbursed generated local currency for the government through a foreign exchange auction. The local currency then became part of the government contribution to the district basket (Frantz, Mpuku, and Wright 2004, 14–15).

of donor activities within the sector (Burke et al. 2005, 14).

- In Nicaragua's productive sectors, particularly agriculture, it has not been possible to organize SWAps because donors have had fundamental differences in approach. European donors have favored exclusive support to smallholder farmers, whereas USAID, some other donors, and the government have favored supporting larger-scale producers with better export potential. By contrast with project-type assistance, trying to put together SWAps or GBS programs forces donors to confront the implications of their own differences (Burke et al. 2005, 20).

Postconflict countries belong to a special category of fragile, recovering states. Program assistance entailing cash disbursements—delivering financial resources directly into the national budgets of postconflict countries (i.e., general budget support)—can be useful for reducing fragility, especially when there is oversight from a lead donor (or a multilateral organization such as the World Bank). Countries that need cash infusions (e.g., Timor-Leste and Afghanistan) may not have the capacity or financial controls needed to manage funds to the standards of donors. When this is the case, it may be necessary to temporarily augment host-country personnel with donor staff so that funds are managed and used appropriately.

Expected results in postconflict countries may relate more to stability than to development; USAID funds

The more the governmental budget process envelops all revenue and expenditure, the easier it is for the monetary authority, i.e., the central bank, to respond to financial market fluctuations.

usually do not come out of its Development Assistance account. There should be consistency between the objectives and the approach.

- In postconflict countries, the accurate and timely use of the budget system as a tool of central government policy has significant impact on long-term monetary policy and monetary control. Ultimately the central bank will have to deal with spending by the government's fiscal authority. The more the governmental budget process envelops all revenue and expenditure, the easier it is for the monetary authority, i.e., the central bank, to respond to financial market fluctuations. In the first decade after reconstruction begins, most financial market fluctuations (inflow of funds) will be sourced from donor funding. How this money "hits" the economy is important, and standardizing donor fund inflows in a transparent way makes it easier to set and implement monetary policy. The experience in post-Taliban Afghanistan makes a strong case for this (Lewarne and Snelbecker 2004, 96–97).
- Establishing the ability to prepare and execute the budget properly is an important step in postconflict countries. Specific capital construction programs promoted by individual

donors should be funded and phased in through the fiscal authority (government budget) to avoid separating the current budget from the capital budget (ibid., 98).

- Setting up a financial management information system is important because it makes the treasury system strong and transparent to donors. This was done with World Bank assistance in Afghanistan, Kosovo, and Timor-Leste (ibid., 71–98).
- After a devastating conflict with Indonesian-supported militias in 1999, the new government of Timor-Leste had a commitment to governing responsibly and to promoting the country's development, but lacked capacity. The Transition Support Program was designed by the World Bank to meet these needs. The World Bank assumed an oversight role which imparted to Timorese officials the discipline and capacity needed to manage a national budget and account for public funds (Malick et al. 2005, 17).
- The government of Timor-Leste has a sound system of financial controls to manage funds and minimize fiduciary risk. The budget formulation process led by the Ministry of Planning and Finance (MPF) includes input from line ministries and

follows the priorities outlined in the National Development Plan. The risk of deviating from the system of controls is minimal, owing to World Bank oversight, a highly centralized and hierarchical internal system of authority, and the presence of 20 to 30 expatriate personnel in the MPF, along with other expatriate staff in key advisory and line positions in line ministries (ibid., 14–15).

- The Timor-Leste government's procurement and payments system is so rigorous and centralized that most budget execution problems are due to the absence of trained Timorese staff. As a result, surges in procurement activity and spending occur at the end of the fiscal year. To avoid these problems, the government has established a budget execution committee to monitor expenditures and has drafted legislation to delegate procurement and financial authority to line ministries (ibid., 15).

Cash disbursements in the form of balance of payments support can be useful in postconflict countries when the recipient country has a large external debt and needs to reestablish economic and political stability.

Cash disbursements, also known as cash transfers, were used widely in Latin America in the 1980s and early 1990s. These disbursements were generally conditioned on the enactment of policy reforms.

- In Nicaragua, after the Chamorro administration came to power in 1990 following several years of civil

war and poor economic governance, USAID set up an Economic Stabilization and Recovery Program (ESRP) using cash transfers to provide balance of payments support. This program was intended to help the government bridge foreign exchange shortfalls and reestablish macroeconomic stability, restructure the financial system, begin privatizing state enterprises, eliminate the state monopoly in foreign trade, and establish free access to foreign exchange at competitive rates. Care was taken not to conflict with complementary World Bank and IMF programs (Burke et al. 2005, 5–6).

- The ESRP, which ran for about two and a half years, was successful in improving fiscal and monetary policies and reducing inflation, as well as developing a modern private banking system, making progress on privatization, and eliminating government intervention in prices, including the price of foreign exchange. By the end of 1992 the Nicaraguan economy had recovered enough to end the need for policy-conditioned balance of payments support (ibid., 6).



Conclusions

Program assistance can be a useful part of an overall aid package that includes the full range of instruments for enhanced effectiveness. Missions need to have the flexibility to draw on program assistance as one instrument of aid delivery when it can be justified by country performance and commitment, an acceptable level of fiduciary risk, and a stable macro-economic environment.

If program assistance is selected as one instrument of donor aid, projects can provide technical assistance supporting common development objectives.

Supporting a national-level program usually provides more potential for achieving large-scale, sustainable results than a comparable amount of money spent on projects, thus increasing efficiency. Program assistance may well be better poised than projects to accommodate limited host-government capacity because it supports activities that have high priority for the government. Donors do not draw limited local staff to their projects, nor does staff have to be as concerned with different donor procedures, requirements, and strategies.¹⁰ If program assistance is selected as one

instrument of donor aid, projects can provide technical assistance supporting common development objectives by providing technical assistance to government, civil society, and the private sector. This may be an appropriate role for USAID when other countries are providing what is deemed sufficient program assistance.

Gauging host country commitment and tracking results to sector programs may be easier than tracking results of national programs assisted by general budget support, because objectives are more focused and there are fewer players. Based on USAID's experience in Malawi (see this paper's subsection on sector program assistance, page 6), host government commitment and other conditions may change over time; accordingly, it may be more appropriate to plan sector program assistance over a medium three- to-five-year timeframe rather than a longer five to nine years. Sector program assistance is appropriate when a donor aims to achieve reforms or objectives in countries with good performance and commitment.¹¹

Exposure to corruption and fiduciary risk are always concerns when designing and implementing program assistance because funds flow through the government's financial management

¹⁰ General budget support, a form of program assistance, can be equally staff-intensive, especially in ministries of finance, which take the lead in the policy dialogue process.

¹¹ This is USAID's approach to providing transformational development assistance under the guidelines of the White Paper (USAID 2004b).

and procurement systems. Having appropriate systems in place is important to ensure synchronization of budget allocation with policies. High government commitment to carrying out development programs and fighting corruption also decreases the risk that funds will be misused. However, it should be emphasized that money is fungible and that resources directed toward well-managed projects can free up funds for legitimate, albeit non-developmental, ends or even less transparent uses. Most donors do not believe that corruption necessarily increases when funds are delivered through nonproject instruments. Projects designed to fight corruption can support sector programs.

Fragile postconflict countries present special circumstances. These countries often do not have the capacity to manage funds on a large scale, but their new governments still need cash for operations and reconstruction. It may well be advantageous to run donor assistance through a central budget with appropriate systems of budgeting, procurement, and accounting. Augmentation of host-country capacity needs to be an initial priority. Oversight from a lead donor (e.g., a multilateral bank) facilitates this. In certain priority countries it may be appropriate for USAID to assume the role of the lead donor, directly transferring funds to country budgets to support recovery, reform, and stabilization.

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U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, D.C. 20523-1000
Telephone: 202-712-4810
www.usaid.gov