

THE SERVICIOS OF LATIN AMERICA

Brief Summary

Servicios represented a major instrument in the earliest general strategy employed by the United States government in what became its foreign assistance program. The servicio "strategy" indeed dominated U.S. foreign assistance in Latin America through most of the postwar years until about 1958. Basically, the servicio was an administrative device through which the host government was better able to assimilate U.S. aid and the administration of its own programs. A vigorous debate on the value of servicios raged within the Agency in 1960-61, the conclusion of which was that we should alter our approach and replace it with a counterpart relationship of a more purely advisory character.

The servicios directly involved U.S. as well as host national technicians in field operations and local projects, whereas most counterpart technicians of more recent vintage are limited in their advisory role to central government ministries. The servicio technician was also attached to a ministry, but the servicio itself was a semi-autonomous entity within that framework, sometimes headed by a U.S. official and established by a joint agreement between the U.S. government and the host country government.

\*\*\*\*\*

Most servicios concentrated sectorally in three fields of endeavor--in health and sanitation, in agriculture and food production, and in public elementary and secondary education. Each servicio endeavored to apply its sectoral program throughout the host country as much as possible, and at one time (1955) 42 servicios were at work in 18 countries in Latin America.

Although theoretically a part of the applicable ministry of the host government, the main thrust of servicios was directed at the grass roots of local life. They were action-oriented rather than advisory-oriented instruments with their operational focus fixed on the local project.

They were clearly instruments for the diffusion of technical knowledge and resources, and while there is no question about a variety of shortcomings appearing through the fabric of this "first aid strategy", there is also little reason to doubt that servicios left a developmental impact on the administrative culture of a number of Latin American countries.

### Characteristics of Servicios

Basic operating principles and servicios generally included the following:

1. The servicio was a part of the host government and not properly a part of the aid agency, nor a semi-autonomous commission like the JCRR. It belonged to and theoretically became a part of the host ministry.
2. U.S. technical and administrative personnel assigned to the servicio were "integrated" into the ministry in a staff context.
3. Administration of the servicio was of a joint bilateral character, and field operations were carried out jointly by technicians from both countries.
4. Usually the servicio was to carry out project operations in the field rather than serving only as an advisory body.
5. The servicio's program was shaped up as a variety of projects in a given field of activity, with application pinpointed in many diverse local areas.
6. The bilateral nature of the servicio (in spite of its being a part of the host government ministry) helped to protect its program from local political pressures and changes and thus assured continuity of operations--presumably until the ministry was by itself capable of carrying on the work.

7. The servicio was essentially a technical enterprise, with the principal technicians (rather than administrators) making the basic decisions regarding organization, planning, reporting, and administration as well as operations.
8. A special bank account was established for the servicio which was to contain program funds contributed by both the U.S. and the host country, as separate from the ministry's or host government's accounts, to avoid red tape of the host government's fiscal procedures, to allow quick response to project needs, and at the same time maintain careful fiscal controls.
9. Expenditures from this bank account were limited to purposes described in the basic program agreement and to more specific project agreements determined by joint staff project studies and operating plans.

The organizational character of servicios varied greatly from country to country as well as from sector to sector.

Latitude and flexibility must be considered a characteristic of the servicio system. The creators and organizers of servicios were generally pragmatic and behavioristic in their educational philosophy, more eager to cut the cloth to fit the job than vice versa. A basic theoretical aim of the servicio--both at the ministry and at the field level--was to support an educative process. The structuring of working relationships between the technical team and the ministry emphasized that a day-to-day learning-by-doing-together was the best central office approach to the transfer of technical assistance and development motivation.

It was a quite different matter from the "advisory" role of the technician who consults and suggests to his counterpart but does not directly participate in operations. The servicio was thus an operational mechanism.

Structure of the servicio accommodated itself to the principle of jointness in program administration between

the ministry and the U.S. technical mission. This required mutual commitment not only in the form of the basic bilateral agreement but also in each series of integrated projects, each of which required agreement and signatures of the host country minister and the head of the U.S. mission. Project implementation was then to proceed by the joint efforts of host country and U.S. technicians working together within the ministry framework.

The principle of jointness was demonstrated not only in program administration and implementation but in financing as well. The basic agreement creating the servicio provided a contractual obligation on each government to contribute the amount stated for the program on a scheduled basis. Mutuality was maintained by granting the veto power to both the minister and the head of the U.S. mission over the annual operations budget, which funded the projects.

The great majority of servicios were single-purpose agencies; that is, their project focus was limited to and circumscribed by goals in a single field of activity--in this case, agriculture, health or education. Often, however, the programs were spread too thinly in terms of geography. Not infrequently two or more kinds of servicios were simultaneously at work in the same area, but there is little evidence that their programs were effectively coordinated or interlinked. Hence the sectoral interlinkages so important in the over-all development process, so important especially to a technologically unsophisticated local society of an organic nature, tended to be overlooked, as "chicken specialists could see only chickens".

By 1955, 42 servicios were operating in 18 of the 20 Latin American Republics (Argentina and Cuba excepted)--17 in health and sanitation, 13 in agriculture, 11 in education and 1 in industry. U.S. direct hire personnel in the servicios probably peaked in 1957. But by 1958, the influence of the extension philosophy on U.S. assistance strategy began to wane. Starting in 1958 the U.S. share of servicio program costs fell close to zero in several countries, despite the fact that the servicio budgets had grown in absolute size.

61

During the latter years of the servicios, host governments tended to increase rather than decrease their financial support to servicio programs--an indication that some of the spirit and message of the servicio approach had been at least accepted and in some cases (as in the continuation of the Peruvian and Honduran agricultural servicios) had been successfully transplanted.

The agriculture servicios were functionally quite diversified, although their principal thrust was agricultural extension. The Peruvian example (SCIPA) carried out major projects in developing host country agricultural extension centers and activities, administered a fund for "reimbursable facilities" (machinery, tools, insecticides, seeds, livestock, etc.), created a supervised credit plan, and supervised the regional Mantaro Valley Plan. The latter was a community development type of program based on generating local agricultural leadership and increasing food output of medium-scaled farmers through demonstration of improved techniques. The Peruvian agricultural servicio had a long life, probably the longest in agricultural servicio history (with the possible exception of STICA in Paraguay). It sponsored over 300 farmers associations or Agricultural Community Committees.

As a whole, the servicios, within their sectoral areas, represented a broad spectrum of function rather than a narrow concentration of professional inputs, as in many of the more recent technical assistance programs. Progress and accomplishment were, perhaps because of that, less clearly measurable and precise. Some have tended to feel, indeed, that servicios endeavored to undertake too much, and it is probably accurate to say that the wide-swath geographic spread of program too often resulted in a loss of focus and definition. On the other hand, the broad scope of the servicio methodology provided the flexibility necessary for coping with the organic nature of under-developed non-technical local societies. It may also have been responsible for developing a climate of excitement among servicio participants, a real sense of mission and commitment, and a people-orientation, which are sadly lacking in many narrower and more professional specialized and sophisticated programs.

### The Institutional Variables

Only the grossest generalizations may be formed in regard to both technical and sociopolitical leadership which surfaced as a result of the servicio programs. A number of the larger and better-funded programs, however, did place a high priority on both the training of local internal staff and on training activities to develop leadership in project areas. There is some evidence that these efforts paid off and had a permanent value to various ministries, but the record as a whole is not documented. It is likely that leadership results were better in terms of program commitment than in the increase of technical competence, and the accretion of commitment undoubtedly influenced behavioral change.

Even though the servicio policy may have lacked over-all clarity and consistency, there was a high motivational content in it. A people-oriented diffusion of development became the name of the game. For one of the relatively rare times in development history, technological transfer was imbued with a high social purpose, and this marriage of technology with social purpose produced a rather remarkable collective cohesion among the participants.

Both sides of the bilateral arrangements seemed, during most of the servicio history, to respond well to their funding responsibilities--the United States in the earlier stages particularly, and the host governments in the later stages. Since contributed funds were immediately placed in a special servicio fund, this arrangement permitted the servicio to regulate project allocations in its own terms. This seems generally to have permitted them to manage the funds with more dispatch than through normal government or mission red tape. Internal staff training and development was, as already mentioned, a high priority with many servicios, and personnel policies provided adequate rewards for full-time service and commitment more often than did normal ministry arrangements.

53

### Assets and Liabilities

The over-all enabling formula of the servicios may not have been as promising as that of the JCRR, but the latter was a special case of more limited application which received the very highest auspices because of the specific political implications. It is highly unlikely that the special "joint commission" form of assistance could be multiplied in dozens of different operating theatres with the same degree of independence. To some degree, that statement may be challenged by reference to the earliest stage of servicio history when the program was launched under an over-all Coordinator for Latin American Affairs who reported directly to the President. Even then, however, the host country part of the agreement had less status than in the case of the JCRR. It had Presidential approval certainly, but the agreement was with a specific ministry and thus limited in its operational independence.

Nevertheless, the servicio enabling formula, while perhaps not as "pure" a formula for joint operations, shared with the JCRR certain enabling assets as well as liabilities.

1. The formal agreement itself between the U.S. government and the cooperating government, which established a specific servicio, endowed its program with a sense of importance, prestige and dignity.
  2. The agreements gave an unusual degree of durability to the servicio programs and a sense of a relatively long-range commitment.
  3. A number of servicios demonstrated a high capability to continue unscathed by internal political pressures and changes of government. This survivability had important consequences for providing continuity to technical assistance in Latin America.
  4. The device of the separate servicio bank account reinforced continuity and operational independence, and permitted relatively rapid response to field needs. The flexibility of the arrangement permitted the proportions of support from the two governments to change, a condition which tended to encourage host governments to assume an increasingly greater share.
- 54

5. At least in theory the servicio was integrated into the government apparatus of the host government. While this integration undoubtedly presented a number of problems, it at least offered some safeguards against external dominance.

These assets were, of course, no unmixed blessing. In actual application the enabling agreements and linkages showed debits which might readily be avoided in future use of the enabling formula.

1. The enabling agreements (and presumably the negotiations that led to them) were perhaps over-generalized in that they failed to provide clear, precise and detailed definitions, objectives and program criteria.
2. Host ministries were seldom prepared to integrate the servicio program effectively or to adjust to its highly innovative thrust. As a result, the servicio often became internally competitive-- a condition which the JCRR, for example, was able to avoid. The feeling of competition within the ministry tended to shape the servicio as a separate enclave within it.
3. The tendency toward American dominance of servicio planning and operations, though by no means a universal condition, nevertheless persisted in many areas.
4. Phaseout of U.S. support to servicios was frequently too precipitous and lacked effective preparation and planning.

#### Administrative and Management Factors

In spite of the relative longevity of the servicio experience, there is little evidence to suggest that an effective management rationale and system evolved. (There were exceptions of course.) The servicios were primarily technical instrumentations, and a review of the experience

suggests that the management factors were given only secondary consideration. In addition to the internal funding arrangement noted above, however, servicio management did reflect two sets of assets which deserve their due.

1. Servicio management tended to encourage and reinforce a spirit of personnel commitment, a sense of mission, which the standard advisory counterpart system seldom achieves. This had significance not only for field diffusion but also for the central host ministry and the headquarters team.
2. Servicio management operated in a framework of procedural independence--that is, it developed its own internal procedural system which avoided, to some degree, the generally over-elaborate bureaucratic red-tape of both ministry and country mission.
3. In addition, one should note that the personnel arrangements in most servicios emphasized a full-time commitment, contrary to many host ministry practices, and consequently paid more adequate salaries to host country personnel than was usually the case. Although this may have created some frictions and jealousy, it did help inject a more responsible attitude toward government service.

Lack of a general management perspective and rationale, however, led to conditions which tended to nullify some of the most far-ranging possibilities of achievement and in the end led to a mounting criticism of the servicios' inadequacies. To some degree at least, the fault was traceable to Washington rather than to technician-directors or the field operation. For it is unfair to assume that men whose entire training has been as technicians and then placed in charge of management responsibilities, could suddenly blossom as effective managers. One observer noted-- "This is like putting a camera team in charge of a movie production. It can work with a special breed of camera technicians. The U.S. extension advisers and their

counterparts were not of that calibre: Their training was not suitable, and the recruitment process selected them on criteria other than ability to design and carry out integrated rural development programs." Most were, in effect, selected more for the degree of their technical knowledge than for their ability as managers, planners and integrators.

There were many debits that resulted from this condition, but among the most important perhaps were the following:

1. There was a tendency of servicios to evolve into isolated enclaves somewhat separated from the total government environment of which they were supposed to be a part.
2. Over-eagerness to demonstrate field results and a transfer of technology tended to shortcut such basic requirements as pre-action surveys of local conditions. The consequent lack of benchmarks tended to reduce the effectiveness of monitoring and periodic evaluation, as well as of the program itself.
3. Field program evaluation had not yet evolved as either an art or a method in foreign assistance, and evaluative incapacity, fully demonstrated by the lack of really effective documentation, was one of the causes of the mounting criticism in the later stages of the servicio experience.
4. Part of this was due to the reporting inadequacies of servicio management. It was generally un-professional, even amateurish, and no system existed evidently for meaningful progress reporting from which could be established a "history" of the program.
5. Inadequate linkages (a) between servicios operating in the same theatres, (b) with private sector agencies serving the same clientele, (c) with research institutions with useful substantive inputs--these inadequacies meant a loss of strength and mutual reinforcement. In the most serious cases they ended in the servicio's working in a vacuum.

### Operating Factors

For all their administrative shortcomings, a persistent impression remains that the servicio experience as a whole was operationally highly innovative, particularly in view of the conditions that prevailed in the operating theatre. The innovative spirit underlying the servicios, and their philosophy of diffusion and social purpose, created the sense of excitement about the enterprise which has been noted previously. While in the character of its auspices and its management the servicio was something of a "mixed bag", its operational breakthrough is largely on the credit side of the ledger. When Congress inserted Title IX into the Foreign Assistance Act, the Agency was, in effect, forced to reconsider priorities which the nearly forgotten servicio experience had represented, if only in a pioneering and somewhat fumbling way.

1. As a whole, the servicio must be credited with at least an innovative intent, an approach to the problems of inducing positive change in the fabric of local societies which was outreaching and imaginative, in spite of an overreliance on technology per se.
2. Perhaps the principal contribution of servicios was its philosophy of diffusion, its spread effect, its thrust beyond generally narrow parameters of government in tradition-bound societies.
3. In the servicio the thrust of technology, brittle and "amateurish" as it may have sometimes been, was oriented to people of small means and few resources, and one has the impression that this high social purpose did leave a significant residue even though as an institution-building device the servicio faded.
4. The servicio gave a field focus to the development effort. It had outreach, and what was or was not accomplished in the field was the central consideration.

58

5. The action-orientation of the servicio (as distinct from the merely advisory role) steadily reminded its participants that the name of the game of development was really at the end of the line of the delivery system. If development did not occur there, development did not happen.
6. Though perhaps the quality of technology which the servicios endeavored to transfer was sometimes brittle, too North American, or ill-advised, the impression remains that they were what one might call technically adroit, reasonably adaptive to local conditions, fairly flexible, and sometimes hearteningly imaginative.

Several general operational factors, however, tended to hobble and impede the operational accomplishments.

1. The countrywide mandate of the servicios often affected the delivery system adversely. The contribution of the servicio was spread too thinly, over too large a geographic area, without enough effective concentration on project situations which showed signs of "take-off" and perhaps too much concentration on situations which didn't. Diffusion (as a philosophic asset) had its limits.
2. The "delivery system" of the aid agency proved seriously deficient in accommodating project needs in many small and modest ways, and seemed quite unable to supply simple inputs which could have made a significant difference in project progress.
3. In many cases linkages with local groups in the project area, particularly those of a traditional social character, seemed to be insufficiently developed. If they were nurtured, they seemed to be of a rather stark and ephemeral nature.

59

(1 of 2 airgrams)

AID Airgram to Field Missions dated September 21, 1972

Subject: Priority Development Problems and Sector Analysis

....It might be useful to distinguish among what we mean when we refer to Agency goals, sectors, subsectors, and priority development problems. The Agency's overall goals include raising per capita income, improving income distribution, and encouraging civic participation. By sectors we refer to such highly aggregated portions of the GNP or of government activity as agriculture or education. The point has been raised that while one might do an analysis of such aggregates as "rural development" or "population," they are not properly "sectors," as the term is conventionally used. Be this as it may, in the absence of a better word we are using the term sector broadly to include such "sectors." By subsectors we refer to subdivisions of sectors, such as rice production within agriculture, or primary education within education. By priority development "problems" we refer to significant problems, relating to one or more subsectors, on which we can focus our attention and resources as an agency in a meaningful way.

#### A. Subsectors and Problems

Priority development problems can be pursued either within a "conventional" sector or subsector (e. g., agriculture or foodgrains) or outside it. For example, an area of increasing concern is employment and income distribution aspects of agriculture, particularly the problems of small farmers and landless laborers. A recipient country and mission which wished to focus on the problems of small farmers and landless laborers could do so either within a major crop subsector or by a cross-sectoral approach to the problems of small farmers and landless laborers which would include the economic and social context in which small farmers/landless laborers live. In either case both production and income distribution issues should be dealt with. But the "conventional" subsector approach might suggest, for example, a credit program, skewed towards small farmers. In contrast, the cross-sectoral approach might lead to recommendations for a combination of rural public works and education programs, as well as measures to increase production of a crop or crops. The differences between the two should not be overstated. They are of degree rather than kind; where desirable, and where manpower resources allow, the two methods can be combined.

In proposing programs, recipient governments and missions should determine whether, under the circumstances pertaining to the recipient country, they wish to pursue their focus on problems through analysis of sectors/subsectors

or through analysis based on an approach that cuts across sectors. Whichever approach is used, and however broad the analysis, AID-financed activities should be focused on a small enough area so that our input (along with complementary inputs by the host government and other donors) will be sufficiently concentrated to achieve a significant impact.

### B. Analysis of Priority Problems

Some confusion has arisen between the concepts of sector analysis and analysis of priority development problems.

As suggested above, one can analyze a priority development problem either in the context of sectors/subsectors or in the context of a cross-sectoral approach that cuts across several sectors. Whichever approach is used, two points should be noted:

(1) The type of analysis may vary depending on the situation in each case, but the analysis should be broad enough to encompass, to the extent feasible, all elements essential to a full understanding of the problem however the problem is approached.

(2) Once the general analysis is completed, it is essential to focus more narrowly on the priority development problem or problems being addressed.

An example may be useful to illustrate these two points. A country may decide on an analysis of the total rural development sector (not just agriculture) in order to determine the optimal mix of programs and policies for output and income distribution objectives. By so doing, the analysis would hopefully show the broad interrelationships involved among various elements of the rural sector. However, AID assistance should be focused on one or a few well identified and high priority development problems within that sector (e. g., on a program to help small farmers through credit plus rural works for off-season employment, or on a program to increase yields of a major cereal crop). Our point is that while "rural development" may be a useful framework for analysis, it is not a problem (nor is it a project or program). Missions should focus their programs on discrete and important problems raised by the sector analyses.

As a practical matter, we expect that the analytic support for priority development problems will be in many instances drawn from sector or other analyses that already exist or that will be prepared for other purposes—e. g., as part of the support for the recipient country's development plan, justification for major World Bank involvement, etc. The important point to keep in mind is that it is necessary to pull together various analytic

materials in such a way as to support the focus on the priority development problem itself—however the latter is defined.

C. Which Comes First: The Problem or the Analysis?

Some persons have raised questions as to whether problems can be defined prior to making an analysis or only after making an analysis. As a practical matter, we suspect that one will not precede the other in an orderly, formal progression. Rather, it is much more likely that the host country or missions may have a reasonable understanding of what the country's development problems are, and these may be refined and changed by subsequent analysis. And it is possible that the original idea could come from existing analysis done for another purpose. Whatever the initial sequence of events, we believe it should be possible to end up with a well-defined priority development problem supported by an adequate analysis.

D. Quantitative and Qualitative Analysis

Some people within the Agency reserve the term "analysis" for analyses derived from quantitative models. Each region may wish to provide its own guidance on this point, but we do not wish to imply that analyses not based on quantitative models are invalid (or that quantitative models per se are necessarily valid). In fact non-quantitative elements such as comprehensive consideration of socio-cultural and political factors must be covered in any sound sector analysis. (While these elements could in theory be included in models, there are formidable political and bureaucratic obstacles to doing so.) In those countries where there is a capability and an interest in working with quantitative models, we think it is useful to encourage experimentation in this direction and can arrange for TDY assistance to governments or missions to discuss how such models might be built and utilized. However, we expect the majority of sector analyses will not include quantitative models.

We wish to avoid creating a false dichotomy between "qualitative" and quantitative analysis. The two methods are, or in any event should be, complementary. Quantitative models should begin from and feed back into qualitative consideration of sectoral goals, problems, and policy and program options. Conversely, in qualitative analyses, there should be quantification where feasible (such as manpower or credit requirements or rates of return). A brief paper discussing non-quantitative sector analysis will be transmitted shortly for your information.

The quantitative work that has been done in the agriculture sector is interesting and promising. The LA Bureau has done a major study in Colombia, relying on input-output analysis and linear programming to

62

cover both the agriculture sector and other sectors with which it interacts. Michigan State University has done some innovative work on systems analysis of the agriculture sector using simulation techniques, but they have yet to include relationships with other sectors as an endogenous part of their models. While obtaining reliable data is a problem in model building, the extent to which the model builders have been able to find data where it was previously thought there was little or none available is quite surprising. For example, the MSU simulation model has been applied to Korea, Nigeria, and Venezuela (livestock only). A simulation model developed at Wisconsin has been applied to the Indian State of the Punjab. Initial discussions are now taking place in several other countries. AID/W is preparing a paper on the state of the art in sector analysis which will deal with the relationship between quantitative and qualitative analysis in more detail.

#### E. Activities of the Technical Assistance Bureau

As you know, the Technical Assistance Bureau of AID/W has for the past three years been working to strengthen the Agency's professional capacity in selected areas in order to provide useful knowledge and quality experts for LDCs. While the specific country environment is, of course, the prime determinant of what missions will wish to identify as priority development problems for Agency attention at the country level, our capacity to respond must also be an important consideration in determining overall Agency priorities.

...we are reviewing the FY 1974 budget submissions to determine what are the highest priority development problems the Agency can meaningfully address. Global sector statements are being drafted which will identify an initial set of priority development problems for the Agency and which, for TAB, will supersede the Key Problem areas. The sector statements will be reviewed by the Administrator's Advisory Council.

(2nd of 2 airgrams)

AID Airgram to Field Missions dated November 18, 1972

SUBJECT: Agency Approaches to Sector Analysis

I. Background to Agency Interest in Sector Analysis

The growth of interest in sector analysis within AID, other development agencies and the LDC's has many causes, but there are perhaps two principal ones. First, there is an awareness among planners that both nationwide macro-economic planning and discrete project planning leave substantial gaps in the planning process. The "sector" or "subsector" is coming to be seen as the vital link between separate development activities and national economic goals. It is within the sector or subsector that the complex interplay of resources, technology, policy and social structure determines the real outcome of development efforts. Careful analysis has helped planners to identify major constraints on development which both the "macro" and the "project" approaches often miss.

Second, the growing recognition that development must have multiple goals—full employment, equitable income distribution, a decent environment, as well as economic growth—has provided an important impetus to sector analysis. Both donor countries and the LDC's are asking, what is the development strategy which best maximizes these goals—what are the tradeoffs and complementarities? Analyzing a sector or subsector can be a useful means of identifying the "right" strategy in these terms.

To date our experience with sector analysis has been experimental and eclectic. Some of the work AID has done in sector analysis has grown out of macro-economic analysis undertaken by certain of the larger AID Missions. Some of it has consisted of short-term sector study teams for purposes of planning or redirecting AID projects within a sector.

At this point, it would appear useful to provide guidance on AID's approach to sector analysis in the future. This is not to say that work in sector analysis is no longer experimental—much of it still is and will remain so. AID/W does not have all the answers on how to employ sector analysis, nor do we assume that sector analysis leads inevitably to the best answers in structuring country programs. But it is possible—and, we feel, necessary—

64

at this time to provide interim guidance on sector analysis as Missions and Bureaus seek to focus their programs on priority development problems within sectors and subsectors. Defining the ground rules of the relationship of sector analysis to AID programming is especially critical—what type of analysis is appropriate for what purposes? How should sector analysis be carried out and who should do it?

## II. What Sector Analysis Tries to Do

A sector can be defined as any section of the economy which has an analytical identity and which is broad enough to contain significant inputs and policy issues.

The Rice/Glaser report defines sector analysis as "a study of the principal factors governing development of the sector for the purpose of identifying manageable, integrated projects and policies with high payoff." This is a good, short working definition since it identifies the common characteristics of all sector analysis—at whatever degree of quantification and methodological sophistication. As a rule, a sector or subsector analysis is carried out according to the following steps:

1. Creating a descriptive model of the sector, employing qualitative and quantitative terms to identify the main functions within the sector—resources, technology, policy, social structure.
2. Demonstrating how these functions interact.
3. Predicting the possible effects of changes in one function on the other functions within the sector.
4. Identifying constraints on development that exist within the sector.
5. Suggesting various interventions within the sector which may affect the overall performance of the sector.
6. Recommending what combination of interventions adds up the best strategy for sectoral development.
7. Pointing out the gaps and shortcomings of the analysis and suggesting priorities for further analytical work. This underscores the need for continuous work to build the empirical basis for better analysis in the future. When institutionalized, sector analysis can be a continuing process serving broadly as the basis for resource allocations and policies within a sector.

65

### III. The Varieties of Sector Analysis

Of the twelve agricultural sector analyses studied by Rice and Glaser, there appears to be a rough distinction between two varieties of analysis. The first are sector or subsector studies of short duration which may be predominately qualitative or quantitative—but do not employ formal quantitative models and do not use computers. Second are those relatively few studies lasting much longer (normally a year or more) and relying on extensive accumulation of social and economic data, which are then manipulated through a variety of techniques—often using computers—to predict the effects of alternative policies and inputs within the sector being studied. This type of analysis does not avoid qualitative judgments (indeed, no analysis can), and it need not employ the most sophisticated mathematical techniques available. But it does aim at the maximum quantification of key variables consistent with the objectives of the analysis, and to do this it employs extensive, disaggregated data which take considerable time and effort to organize.

Although no definitions are perfect, we are calling the first variety a "sector assessment" and the second variety a "long-term sector analysis." Using these definitions, let us then examine how these two types of analyses can be used to improve the development planning process.

At this point the question of who uses the analysis for what purpose becomes crucial, especially at a time when the Agency is attempting to frame country programs in a more collaborative style.

We anticipate that the short-term sector assessment will be the form most often appropriate to AID involvement. Over time, as LDC interest in sector and subsector planning increases, we anticipate that a significant proportion of AID's loans and grants would be backed up by a sector assessment. In some cases an AID Mission may wish to require that a sector assessment be conducted (either by the host government or by a U.S. team). But we do not feel that sector assessment should become a hard and fast requirement in the programming of all AID resources. A sense of proportion and good judgment is needed, which would balance in every case our desire for a more solid analytical base for aid programs with our equally compelling conviction that aid programs need to be conducted in a more collaborative style.

For example, a request for technical assistance involving several advisors and a relatively small dollar outlay should be based on knowledge of the sector within which that assistance will be placed. Indeed, the PROP (with its evaluation system "matrix") attempts to do just that. However, in this situation it would not make sense to require a sector assessment unless the host country wants that type of help. Nor would it make sense to

66

require an assessment of a sector where other aid donors have the major interest and AID has only a minor interest. On the other hand, a request for a large technical assistance input to a sector or subsector where we are a major donor may suggest the reasonableness and utility of a short-term sector assessment.

Most capital projects would benefit by being grounded in a sector assessment. We might convey to a host government our belief that a good assessment would yield a better project. But we do not feel that it would be wise to require such an assessment unless a host government itself were seized with its desirability. Sector loans or grants, however, will require a prior assessment—by definition the assistance is in support of a sector plan. AID needs an analytical basis for judging the effectiveness of the sector plan which foreign assistance is to help finance. Program loans, as explained in previous guidance, need not be forced into a sector mold and should be based on country and World Bank macro-economic analyses—with due critical evaluation by AID.

One final point about sector assessments: in cases where an assessment is indicated, it is not essential that the assessment be planned and carried out by the U.S. On the contrary, it would be most desirable if the host country itself did the analytical work (calling on AID for help as needed). Studies already conducted by other bilateral donors or international organizations may also satisfy the purpose, based on AID judgment as to adequacy and relevance of a given study.

The long-term sector analysis would be most appropriate: a) when the host government requests technical assistance in sector planning and analysis, and b) in certain limited cases where AID judges that a sector assessment cannot provide an adequate basis for the infusion of really major foreign assistance resources into a sector or subsector. Therefore, most longer-term sector analyses will take on the character of discrete technical assistance in economic and social planning. Except for an occasional case falling within the terms of category "b," long-term sector analysis will not be initially and directly related to the programming of AID resources. Of course, over time long-term sector analysis may reveal opportunities for assistance, but these benefits would be secondary (and could not be guaranteed at the outset of U.S. /host country technical collaboration). The main benefit would be improvement in the planning capability of the LDC—resulting from application of the perspectives and rigorous methodologies of long-term sector analysis.

#### IV. Sector Assessment/Analysis and Agency Programming

The FY 1974 submissions identified for each country program those areas in which host governments and Missions would like to concentrate U.S. aid

inputs. AID/W has reviewed these "DAP outlines," and regional bureaus have provided comments on them. Although these outlines are subject to further refinement and modification (through continuing dialogue among AID/W, Missions, and host governments), it should be possible at this time to anticipate, country-by-country, the Agency's sector assessment/analysis needs for FY's 1973 and 1974. In other words, for each country it should be possible to rough out a "schedule of analytical work" for the next 18 months based on guidance provided in this message and on judgments of Missions and Regional Bureaus.

### Sector Assessments

Many sector assessments are already scheduled or under way. Regional Bureaus and TA Bureau will endeavor to assist Missions in finding contractors, PASA's or in-house expertise to help in these assessments. By the end of FY 1974 virtually all of the sector assessments indicated in Missions' and Bureaus' informal "schedules of analytical work" should have been completed. At that point we can say that the AID program rests on a reasonably thorough analysis of those sectors and subsectors in which we are concentrating, that these analyses have been undertaken where it appeared to make programmatic sense, and that the analytical effort was conducted consistent with the Agency's more collaborative assistance style.

In terms of Agency programming, a sector assessment would serve as supporting material for IRR's, PROP's, loan papers-- making possible the elimination of sections in the documentation dealing with "background," "setting," "environment." Where assessments have been completed, we would expect less extensive documentation, focusing principally on the outputs and inputs of the proposed project and (for loans) on standard cost-benefit analysis. AID/W is considering a range of changes in documentation and approval procedures which might be feasible and appropriate as the Agency seeks to integrate loans and grants in a sector approach.

### Long-term Sector Analysis

Although we feel that long-term sector analysis is a potentially useful tool for the LDC planner, we should avoid the appearance of forcing it on any country. Nor would we wish to bring it too abruptly into the direct process of programming U.S. assistance--the techniques are still experimental (however promising we feel they are), and we need to do a better job of educating ourselves and our LDC planning colleagues about these techniques before passing them off universally and uncritically. However, AID has already built up some solid experience using linear programming techniques and simulation models of sectors in Colombia, Korea, and Nigeria, and the World Bank has done successful work in Mexico and other countries.

A number of offices in AID are presently engaged in analyses of this kind—principally the Latin America Bureau's Sector Analysis Office and the Agriculture Sector Analysis Office of the FA Bureau. The real need at this point is to make their work known more widely in AID and the LDC's so that these newer and more quantitative techniques can be employed where appropriate.

V. AID/W has established a Coordinating Committee on Sector Emphasis, which will provide periodic guidance on a range of issues relating to areas of concentration, priority development problems and sector analysis. We recognize that this airgram is only the beginning—much more substantive guidance is required. Therefore, in the next six weeks the new Committee will produce an airgram on sector assessment<sup>1/</sup> which will suggest ways of improving the effectiveness of short-term study teams, and two airgrams on long-term sector analysis—one an explanation of techniques and another on the Colombia Agriculture Sector Analysis which has been going on for two years, employs a stimulating approach and has strong host-country support.

TA, in cooperation with the new committee, will also produce a guidance series which will assist in organizing assessments and analyses in specific sectors—education, health, agriculture, etc. The PIA Bureau will do likewise for family planning. This guidance will be formulated with a dual audience in mind—the Mission and the LDC planner.

The committee urges Missions to make AID/W aware of reactions to this and subsequent messages, so that future guidance can be conveyed as helpfully as possible.

1/ Among other things, it will make the point (not properly brought out in this message) that there can be continuities between "assessments" and "long-term analyses"—obviously the former can lead into the latter.