EVALUATION OF PRIVATE SECTOR PROGRAMS

USAID/LAC

PHASE II - INTEGRATED RECOMMENDATIONS/RESULTS EVALUATION

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I. INTRODUCTION

The unequivocal purpose of this stocktaking exercise has been to analyze the relative effectiveness of the various strategies designed and being implemented by missions throughout the region to achieve the "private sector initiative's" goals of increased private investment, exports and employment in the cooperating countries. In other words, the paramount objective of the exercise has been to measure and evaluate against project inputs the results obtained in the three areas of private investment, exports development and employment generation, in order to bring about a sharpening of the strategic focus or a reorientation of strategic approaches to increase the effectiveness of projects and programs and improve the efficiency in the use of capital and management resources by the Bureau.

In formulating the scope and approach to the stocktaking task in response to the Assistant Administrator's request, four important working assumptions were made that were soon found to be essentially inaccurate. These assumptions were:

- that information both on project inputs and results was available and retrievable from existing documentation;
- that the quality of the data reflected in similar documents originating in the missions would be homogeneous and compatible, requiring only limited verification;
- that information on results was available for analysis and evaluation against macro-economic performance indicators; and
- that country strategy statements, action plans and similar documents presented comprehensive definitions of program goals and objectives as well as statements of the strategies that would allow for congruency analysis.

How the project team has dealt with the implications and problems associated with these erroneous assumptions is discussed in more detail in the Conclusions and Methodology sections of this report and within the Phase I report. It is essential, however, to address in this introductory summary the problem caused by the almost absolute void of systematically documented information on results, necessary to achieve the goal of this exercise within the time frame established by the Administrator. To fill the void, the missions were requested to go through a focused stocktaking exercise of their private sector program in a very short period of time and through the use of a format that in some instances did not allow for a well balanced comparative analysis of the results gained by their project portfolios. In parallel the project team carried out a comprehensive analysis of the large inventory of projects designed to carry out the private sector initiative throughout the region in order to develop a better understanding of the explicit and implicit strategies that had been pursued during the last five years, that is, a better understanding of the input side of the development equation. The results of this exhaustive evaluation of the project portfolio in the region as of FY 1986 have been presented in a separate "Phase I" interim report.

This present "Phase II" report incorporates the results of the evaluation of the projects, the valuable comments and information contributed by the Private Sector Officers that have participated this week in the review of the findings and conclusions presented in the interim report, as well as the results of the analysis of the response to date[1/] to the request for information on program/project accomplishments. The Private Sector Officers' observations on the evolution of the programs over time have been of particular value to the overall assessment. Indeed, recognition has to be given to the favorable evolution of the project portfolios, especially in the last two years examined (and FY 1987 as planned), in terms of program content and priori-

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1/ Eight missions only have responded to date to the request for information on the impact of their project portfolios on investments, employment and exports as well as other accomplishments.

ties as measured by funds and management resources allocated. As part of this stocktaking exercise, the Private Sector Officers review team has prepared a descriptive analysis of the evolution of the private sector initiatives that will be presented separately. This analysis adds an important "dynamic" dimension to the evaluation of the conclusions presented in the Phase I interim report.

The analysis of the macro-economic setting within which the results of the program need to be evaluated will also be presented in a separate appendix. The difficulties in finding direct linkages across a broad range of variables between program/project results and the behavior of macro-economic variables have been encountered by every evaluation team that has undertaken the task. Although there are some very clear measurable impacts, such as large ESF transfers on balance of payments and government finances, the numerous factors weighing in the scale at any point in time generally make it almost impossible to single out any one intervention as determinant. Nonetheless, it is important to understand and be able to assess the implications of economic trends. The design of projects and strategies should reflect the economic (as well as the socio-political) setting to a much higher degree than what is apparent from the documents reviewed.

The fourth erroneous assumption, as described above, conditions what to do with the request by the Administrator that a strategy congruency analysis be carried out. The first problem encountered was that program goals are often not articulated in ways that would allow quantification or analysis. In many instances goals, objectives, and strategies were broad and vague; in other cases the statements on objectives "substituted" for strategies and still in others, strategies were not explicit. The approach that the project team undertook was to analyze and evaluate the project portfolio as indicative of the "real" strategies being pursued, and to analyze the results principally as a function of the goals. In this manner, a real test of congruency and effectiveness is made.

II. METHODOLOGY SUMMARY

1. Introduction

The following is a summary of an extensive, laborious process, a full appreciation of which can be developed only through reading the comprehensive methodology description in the Phase I report prepared by Arthur D. Little and Coopers & Lybrand.

The methodology undertaken for this study was originally envisioned to include:

- The rapid creation of a comprehensive information base for LAC Bureau private sector programs (including input, design, and output data) in order to allow for later analysis of program effectiveness and options for actions.

- The use of approximately seven source documents containing project information, to produce the information base:

  - CDSS's
  - Action Plans
  - FY 1986 Congressional Presentation
  - PPC "Categorization Cables"
  - CBI Strategy documents
  - "Activities of the Agency for International Development in Support of the CBI"
  - USAID Development Information System

- The analysis of this data coordinated with information developed on organizational issues, direct input from discussions with private sector sources and additional inputs from missions, in order to produce a set of recommendations for changes in the LAC private sector program.

As will be apparent from what follows, the actual methodology used had to be frequently revised based on facts which became evident as the work proceeded.

2. Creation of the Inputs Data Base

A review of the source documents revealed that although far from perfect, the most complete documents regarding project activities were the "Categorization Cables." Using those as a starting point, 383 projects were listed as "private sector" according to the missions' understanding of the term. It was obvious to the study team, however, that many of the projects could be considered as private sector only in the very broadest of interpretations. Therefore, a definition of a private sector project was adopted which allowed the list of projects to be refined to those which directly impact the level of private investment in a country and/or lead to increases in private production, employment, or net foreign exchange earnings. The use of this screening device reduced the list to 130 projects.

In order to more specifically characterize these projects and to allow for later analysis to focus on bureau-wide rather than mission by mission issues, they were subdivided into six categories:1/

- Policy Reform
- Capital Formation and Mobilization
- Export and Investment Promotion
- Micro-Small-Medium Enterprise Development
- Housing/Land Purchases Financing
- Privatization

At this point it was perceived that inadequate detail existed for a meaningful characterization of the project portfolio, necessitating a careful review of project papers, semiannual Mission Status Reports, FY 1986 Congressional Presentation and the Development Information System. Further information was

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1/ A seventh category, "Skills Development," was initially included but later dropped as not directly impacting investment, production, employment, and/or foreign exchange earnings.

developed on 126 of the 130 projects, and eleven additional projects not reported elsewhere were discovered bringing the total to 141 projects. Information uncovered in the final stages of the review process revealed that four ESF projects included in the preliminary project list had been delisted in the Congressional Presentation for FY 1987, reducing the final total to 137 projects. However, very little meaningful data on realized program outputs was available.

The raw data collected up to this point was then collated and aggregated in a variety of ways. After again checking for obvious inconsistencies, a final set of tables and charts was produced. This refined information base, while likely not totally error free (because of incomplete or erroneous information in the source documents), was considered to be of acceptable quality for analytical purposes.

The tremendous level of effort required to produce the data (well over eighty person-days) from the information sources available within USAID, the low likelihood of significant changes from additional efforts to refine the information, and the need to complete an analysis of this data within the time available, led to a decision to begin an analytical phase prior to receiving results information from the missions. This work produced a set of conclusions regarding strategies, project purposes, mechanisms used, and the method of collecting information for management which are contained in the Phase I report and integrated into Section III of this report.

3. Creation of the Program Results Data Base

The creation of a data base, as noted above, was supposed to include information on project and program results. Due to the dearth of meaningful output information within existing USAID reports, it became necessary to request all fourteen LAC missions to carry out an estimation/information gathering exercise to provide data on planned, realized, and presently expected outputs such as new productive sector investment, jobs created, additions to non-traditional exports, private sector institutions created, policy reforms, and other significant information. Because only four of the fourteen missions had replied by mid-January, the data base on project inputs was prepared separately and analyzed.

The data on project outputs on the eight mission responses received by January 23, 1986 has been compiled by mission using:

- fiscal year project was initiated;
- category (based on the categorization effort described in part 2 of this section);
- authorized funding levels;
- public sector vs. private sector borrower/grantee;
- an investment leverage factor calculated as planned investment creation (actual or expected investment if higher) divided by authorized amount;
- dollars of authorized project funds per job planned (actual or expected if higher); and
- an exports leverage factor calculated as additions to non-traditional exports divided by authorized project funds.

This information was collated on a project by project and mission by mission basis without aggregating data within categories of results because of the obviously inconsistent manner in which investment, jobs, and foreign exchange data has been prepared. Not only did this occur from mission to mission but also among projects within a single mission. No system exists for regularly collecting output data on a comparable basis for the majority of private sector projects.

The conclusions drawn from analyzing what data has been received are also presented in the Conclusions, Section III.

4. Other Issues

Examination and integration of findings from:

- organizational issues (structural and procedural);
- macroeconomic data;
- feedback from surveys of U.S. and foreign based private sector executives; and
- the Presidential Task Force Report

are to be prepared by other individuals within USAID and Arthur D. Little and presented separately.

III. CONCLUSIONS

The following itemized conclusions summarize the analysis of the findings on results as presented in the partial response to the request for specific information from all the missions[1/] on accomplishments toward the goals of the private sector initiative. These conclusions incorporate as well the analysis of the project portfolio as discussed in the Phase I interim report. The primary data on results, together with the primary data on portfolios, has been collected in appendices to this and the interim report. This information should serve as the foundation or starting point of what should become a continuous activity of program/project evaluation and strategic adjustment.

A. PROJECT PURPOSE

- Activities in the policy reform area, Category 1,[2/] which work to improve the economic environment for private sector led development, while only representing 14% of the projects and 10% of the funds, show a marked impetus in FY 1986 and FY 1987 project activities and funding (as planned). Considerable accomplishments have been attempted in this area through the use of ESF (Economic Support Funds) funds as leverage. No effort at quantification of impact has been made, possibly because it is still too early to measure the impact of reforms on the aggregate macroeconomic variables.

- Privatization projects, Category 7, represent recent additions to the project portfolios. Therefore, while the distortion on the economy caused by financially troubled state-owned enterprises is a common occurrence throughout the region as reflected in the economic figures, it is still too early to measure the impact of the one reported successful transfer.

1/ The eight missions that have responded are: Belize, Costa Rica, Dominican Republic, El Salvador, Honduras, Panama, Peru, and ROCAP.

2/ The Phase I report discusses the categorization issue extensively.

- Although there is very little information on the application of local currency generated under ESF loans and grants, the impression is that the principal use of these funds has been credit facilitation and to a lesser degree, the funding of "captive" non-profit private organizations for promotion of private business.

- Traditional activities, i.e., credit and credit institutions included in Categories 2 (Capital Formation/Capital Mobilization), 5 (Micro-Small-Medium Enterprise Development), and 6 (Housing/Land Purchases Financing) absorb the majority of the funds (72%) and involve the majority of the projects (56%).

- The assessment indicates that the greatest leverage (figuratively the input/output ratio), is thought to result from projects in Category 3, Investment and Export Promotion, which, however, represent only 17.5% of the projects and 7.0% of the funds.

- The trend in FY 1986 and FY 1987 both in the use of project funds and local currency generated through ESF reflects increased emphasis on Category 3 projects.

B. MECHANISMS USED

- Generally there has been very little change or innovation during the last ten or fifteen years as to the institutional mechanisms used to channel AID funds for private sector development. Indeed, two thirds of the project (non-ESF) funding has been channeled through public sector institutions (central banks, public development banks, public investment and export promotion, etc.). Recent trends, however, indicate some shift towards the use of "privately controlled" mechanisms.

- If ESF funds are included in the above calculation, 81% of all monies have been channeled through (and to) public sector institutions.

- Ironically, as part of the private sector initiative, for-profit private institutions such as private development finance companies (LAAD included) have received less direct grant and loan funds than public sector institutions and governmental agencies.

- Of the funds channeled through (and to) private sector institutions, 57% has gone to AID created/supported non-profit institutions. For-profit private institutions which generally have had a very successful and effective record in the past, have been used in very limited ways.

- A comparison of the relative effectiveness of private versus public sector channeled efforts on the basis of the statements on results submitted by the missions clearly show that there is significantly more leveraging of AID's resources when used in collaboration with the private sector.

C. INFORMATION FOR MANAGEMENT

- No comprehensive, operative management information system exists for LAC Bureau management. The wide variety of reports and other documents are inconsistent as to both quality and depth of information when compared mission to mission and report to report.

- There is insubstantial information on ESF programs and the ultimate use and efficacy of the local currency projects which are funded by them, yet ESF funds account for over 45% of the total amount which this study shows was authorized for USAID's private sector program in LAC.

- The USAID Development Information System, a computerized data base for projects and documents on activities in existence on or after October, 1974, had major, serious gaps which rendered it totally ineffective as a primary source of information, and rarely useful even as a secondary source. Authorization amounts, dates and other information were also incorrect in many cases.

D. MEASUREMENT/EVALUATION OF RESULTS

The difficult process that has been required to obtain a limited response to the request for information on results clearly demonstrates that this is an activity - the measurements of results - not frequently pursued and thus unavailable or not current in most cases. At the same time, in those cases where results have been measured, the response received reflects the use of non-uniform criteria which makes evaluation on a comparable basis almost impossible. It has become apparent upon attempting to analyze the results reported that recent program adjustments in the direction of improved effectiveness are more the product of intuition than of more rigorous quantitative methods of analysis.

IV. RECOMMENDATIONS

There are three primary strategic recommendations for change in the USAID/LAC Bureau Private Sector Program. If undertaken, corollary changes in specific procedural and structural subcomponents will also be required.

Strategically:

1. Management should concentrate its own energies and resources as well as prescribe a significantly greater Bureau-wide emphasis on continuous evaluation of measurable project and program results. This will lead to a more effective balance with project design and obligation efforts.

2. An accelerated shift should take place towards the increased use of true private sector mechanisms as borrowers or grantees of USAID funds. This shift will be even more important if the contemplated restrictions on the level of USAID resources occur.

3. A meaningful partnership between USAID and a more broadly defined private sector should be sought, based on a mutually shared understanding of both private sector needs critical for increased productive investment, employment and foreign exchange earnings, and the nature and quantity of feasible USAID inputs.

Corollary changes required to effect and/or support these strategic recommendations include:

- Establishment and Bureau-wide use of a rational, comprehensive management information system based on comparably prepared data.

- Examination of all procedures, including personnel reviews, to ensure that they are supportive of results-oriented management and a rationalized information system.

- Examination of organization structure and staffing requirements to ensure the most efficient, productive use of limited human resources.

APPENDIX A

PRINCIPAL FINDINGS - ANALYSIS OF RESULTS CABLES

Note: When speaking of project performance below, reference is to planned or forecasted performance and not actual performance.

- Eight missions responded: Belize, Costa Rica, Dominican Republic, El Salvador, Honduras, Panama, Peru, and ROCAP.
- Results information was available on 65% of the projects reported in the mission cables, or on 40 of the 62 projects included in the responses.
- In six of eight missions, or 75%, projects implemented through the private sector on average outperform projects implemented through the public sector.
- In ROCAP, which only reported three public sector projects, the investment leverage (investment created : authorization amount) was below 1.15:1 in all cases.
- Category 3 projects were most frequently cited as outperforming all other projects in terms of investment and employment leverage (this occurred in five of the eight missions).
- After reviewing mission results cables, Category 2 projects were most frequently cited as underperformers in terms of investment and employment leverage (in three of the eight mission responses).
- There was not sufficient information provided on additions to non-traditional exports to evaluate the performance of projects in this area.
- Seventy-six percent of the projects implemented through the private sector were implemented post-FY 1983 (i.e., in FY 1984 and thereafter).
- It did not appear as if results reported were comparable mission to mission as results varied over a wide range and statistics were not always reported on a consistent basis (employment created, for example, was reported in terms of man/months in some cases, families employed in other cases, and "jobs" created in most cases).
- There was no evidence indicating that size of USAID projects was necessarily correlated with the amount of leverage achieved in terms of employment and investment.

LEVERAGE IMPACT 1/

Inconsistencies in the results reported from mission to mission preclude aggregating and averaging the information collected on investment and employment outputs. The information collected, however, does permit a preliminary evaluation of the relative leverage impact of projects, as compared to other projects within the same mission. The two charts presented below indicate how each category of projects performs, on average, within its respective mission.

LEVERAGE ON INVESTMENT

Output/Input Evaluation

Category	Low	Average	High
2	X		
3			X
5		X	
6		X	

Category 1 - No quantifiable data available.
Category 7 - No data available.

LEVERAGE ON EMPLOYMENT

Output/Input Evaluation

Category	Low	Average	High
2	X		
3			X
5		X	
6	X		

Category 1 - No quantifiable data available.
Category 7 - No data available.

1/ a) The relative leverage impact of a project is based on planned results in most cases (forecasted FY 1987 cumulative results were used where planned results were not available).

b) Charts only reflect the leverage impact of the projects in the eight missions for which results information was obtained.

APPENDIX B

PRINCIPAL FINDINGS - PORTFOLIO ANALYSIS

CATEGORY 1 - POLICY REFORM

Category 1 consists of 20 projects with a current authorization totaling $237,790,000. The projects range in size from $150,000 to $70 million. However, a $30 million project in Panama, a $45 million project in Peru and three in Jamaica totaling nearly $93 million account for 75% of the dollar authorization. Two of these projects are ESF funded, totaling $100 million.

Of the remaining fifteen projects in Category 1 (fiscal years 1980-86), eight are designed to strengthen public sector agencies, programs and/or policies, frequently by improving data collection and analysis. The balance reflect a variety of concerns: improved financing requests to international donors, reducing constraints on the private sector, strengthening agricultural sector policy (for two small projects not sufficient information is available to establish the objectives).

According to early data supplied for the FY 1987 Congressional Presentation, Peru's Policy Improvement Program Assistance, an ESF funded project for $45 million, was eliminated. This revision has been accounted for in all charts and tables presented in the Phase I report.

CATEGORY 2 - CAPITAL FORMATION/MOBILIZATION

The 42 projects in Category 2 range in size from $562,000 to $405 million. The total amount obligated is $1,748,389,000 and there are seven ESF projects, representing $544,625,000.

The projects listed for the fiscal years 1977-81 were designed primarily for agribusinesses through local credit institutions and are largely complete. Two of the FY 1982 projects are energy conservation related; the balance provide credits to the private sector. One of the latter is a $131 million ESF/PL480I loan in Honduras.

Of the five FY 1983 projects, two were to assist in the formation of private development companies; the remainder were directed at the agricultural private sector. Two of the FY 1984 projects also were for new private DFCs. The other two were to provide financial assistance to private builders in the Eastern Caribbean and to new agricultural ventures in Ecuador.

The pattern in FY 1985 was similar: assistance to a new agricultural development institution, credit for agribusiness, medium/long-term credit through CABEI. For FY 1986 there was heavy emphasis on providing finance for non-traditional exports. Two ROCAP projects, two in El Salvador, one in Guatemala and one in Panama were so designated while others providing credit for agribusiness and trade financing are closely related.

Overall, by the nature of the category designation, virtually every non-ESF project provides finance and/or technical assistance to, or through, an intermediary financial institution (central bank, commercial bank, or DFC).

Information extracted from the FY 1987 Congressional Presentation, made available to us subsequent to our initial research phase, indicated that two projects totaling $388 million were delisted, and one project with an original authorization of $405 million was amended to $178 million (Dominican Republic Private Enterprise Sector Development, #517-0171). These revisions have been accounted for in all charts and tables presented in the Phase I report.

CATEGORY 3 - EXPORT AND INVESTMENT PROMOTION

Category 3 consists of 24 projects and total authorization is $141,766,000. The projects in this category range in size from $80,000 to $23,500,000. Of these, there was not sufficient information available to evaluate the goals and purposes of four, relatively small, projects.

Of the remainder, seven have investment promotion as their primary objective and six have development of non-traditional exports. Another three focus on building specific institutions to further investment/export development. It should be noted, however, that in none of these 16 projects are funds be channeled directly to the private sector. Technical assistance has been arranged from traditional sources such as U.S. Chambers of Commerce or AID contractors such as CLUSA. In other instances, financing is through existing intermediate credit institutions or new units to be established within such institutions.

In only three projects in this category would assistance appear to be channeled directly to the productive sectors in the region: a) a small cardamon cultivation program in the Ixcan settlement area of Guatemala; b) a new project in the Dominican Republic to revitalize a large irrigation system and provide farmers with credit, storage, transport and processing facilities; and c) a new cacao rehabilitation project in Ecuador about which no additional information is yet available.

Of the projects obligated in fiscal years 1981-1983, the respective missions characterize three as having serious problems: a) the Agro-Industrial Development Unit in the Agricultural Development Bank in Jamaica; b) the ICP in Panama; and c) RDO/C's agricultural trading company, CATCO, where the Mission has recently received a request for fund deobligation.

Projects approved in FY 1984 and thereafter do not have sufficient operating experience for missions to assess progress or prospective problems. Total amounts obligated in the fiscal years 1984-1986 are $46,158,000, $30,890,000, and $39,800,000, respectively.

Of the total project value of $141,766,000 in Category 3, the cardamon, cacao, and irrigation projects mentioned above account for $16,290,000. It seems self-evident that AID's preference continues to be investment and export development through, or in conjunction with, existing U.S. and regional institutions.

CATEGORY 5- MICRO-SMALL-MEDIUM ENTERPRISE DEVELOPMENT

The 38 projects in Category 5 have authorizations totaling $143,778,000. Projects range in size from $132,000 to $19,675,000. Four of the 38 projects are ESF projects, and account for $20,292,000 of the portfolio.

Of the 30 projects for which there is sufficient descriptive information available, 16 are for technical assistance programs through institutions to the small entrepreneur, eight are combined technical assistance and credit projects, and six are solely projects designed to provide credit to the small entrepreneur.

Approximately 40% of Category 5 project funding is received by public sector institutions either as the sole recipient of the funds (4%) or as an intermediary between AID and the private sector (36%). The remaining 60% of Category 5 funding is received by private sector entities, with non-profit entities receiving the bulk of the funding (37% vis-a-vis 23% for the for-profit entities).

Of the 11 projects obligated in fiscal years 1978-1983, none were characterized by the missions as having serious problems. However, a FY 1983 project entitled "Small Farm Production/ Marketing" in Jamaica, #532-0097, was reported to have been hampered by drought. Projects approved in FY 1984 and thereafter do not have sufficient operating experience to fairly characterize as successful or unsuccessful.

It is significant to note that the vast majority of Category 5 projects (in both $s and project numbers) have been implemented subsequent to FY 1983. In FY 1986 alone, there are 7 projects with authorization amounts totaling $67.9 million, 47% of the Category 5 portfolio. This indicates the increased emphasis AID has placed on the micro-enterprise as a development mechanism, in recent years.

CATEGORY 6 - HOUSING/LAND PURCHASES FINANCING

The 13 projects in Category 6 have authorizations totaling $177,942,000. Projects range in size from $1 million to $32.7 million. There is one ESF project in this group, in the amount of $9.5 million.

Of the 13 projects in this category, seven are land titling/production credit/technical assistance projects for land-poor or landless farmers, and six are aimed at providing access to low and moderate income housing through residential construction and mortgage loans. All projects have as additional goals the expansion of employment and income.

Of the five projects obligated in fiscal years 1979-1983, three have had major problems requiring Mission management attention: a) Agrarian Reform Sector Support Project in El Salvador; b) Low Cost Shelter Through the Private Sector project in Bolivia; and c) Urban Employment and Improvement Program in Costa Rica, which is under the threat of being deobligated because of administrative problems within INVU, the implementing institution.

With one exception, the remainder of the projects approved during FY 1984 and after, have had zero outputs to date or have not had sufficient operating experience to be evaluated. The marketing component of the St. Lucia Agriculture Structural Adjustment project (#538-0090) has experienced delays due to the Government of St. Lucia's lengthened deliberations to develop a marketing strategy. Therefore, this component of the project was classified as having major problems requiring management attention. The land titling and survey component of the project has not had any implementation problems and is actually running ahead of schedule.

CATEGORY 7- PRIVATIZATION

The four projects in Category 7, have funding authorizations totaling $224,500. Projects range in size from $10 million to $140 million. All Category 7 projects are ESF projects.

All funding of Category 7 projects is received directly by public sector institutions. It is noted that information uncovered at a late stage of the review process from the FY 1987 Congressional Presentation revealed that project number 532-0100 in Jamaica had a revised authorization amount of $34.5 million and that project number 511-0570 in Bolivia had been delisted. These revisions have been accounted for in all charts and tables presented in the Phase I report.