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Non-Project Assistance and Policy Reform: Lessons Learned for Strengthening Country Systems

Background Paper for the USAID Experience Summit on Strengthening Country Systems

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EXECUTIVE SUMMARY

This paper reviews USAID experience with non-project assistance (NPA) as a potential learning resource for current efforts to strengthen country systems. Beginning in the 1980s and extending into the 1990s, NPA, in contrast to project assistance, provided aid directly to governments in order to support policy reform. Cases are reviewed from three sectors—agriculture, health, and education—in addition to general budget support (GBS). NPA experience has a number of important dimensions relevant to strengthening country systems:

- **Policy dialogue**, which builds host country ownership and informs program design;
- **Institutional analysis**, which identifies constraints to policy reform and how to address those constraints;
- **Monitoring and evaluation**, which is ongoing in NPA and is critical to error-correction as implementation proceeds;
- **Inter-ministerial and public-private decision-making**, which is needed to involve all relevant actors in a sector or relevant system in the implementation process;
- **Donor coordination**, which reduces host country transaction costs while enhancing donor impact;
- **Technical assistance to strengthen capacity**, which is project-based assistance closely tied to NPA and policy reform, needed to create the capacity required to implement a program and sustain it beyond the period of assistance.

NPA shares with the country systems strengthening approach a focus on systems. Like policy reform structures, country systems have institutional boundaries that cut across government ministries, levels of government, and public/private sectors. Moreover, strengthening country systems often requires changes in the rules governing system activities: this is equivalent to policy reform. Each of the dimensions of NPA-supported policy reform programs is therefore also of substantial relevance to strengthening country systems.

I. Introduction

The purpose of this paper is to review USAID's experience with non-project assistance (NPA) in order to use that experience as a learning resource in current USAID efforts to strengthen country systems. In general, beginning in the 1980s and extending into the 1990s, NPA provided aid directly to governments for the purpose of supporting policy reforms. The cases reviewed come from three sectors—agriculture, health, and education—plus cases of general budget support (GBS), taken mostly from Africa and Latin America. The review is based largely on secondary resources generated by previous USAID efforts to draw lessons from this experience. After introducing NPA and the policy reform activities it sponsored, the paper explores the various dimensions of this assistance modality: policy dialogue; institutional analysis together with social and political analysis; monitoring and evaluation; inter-ministerial and public-private decision-making arrangements; donor coordination; and technical assistance to strengthen capacity. The paper concludes with a discussion of the potential relevance of those dimensions for strengthening country systems.

II. Non-Project Assistance

As USAID's Bureau for Policy and Program Coordination noted in 2005, "Globally, foreign aid is largely provided through project assistance, or donor-managed projects" (PPC 2005a: 2). In this modality, aid is delivered by procuring project materials and services and used, for example, to build infrastructure, train civil servants, and deliver technical assistance. PPC cited several advantages and disadvantages. Among the advantages were donor control of the money being spent; projects that reflect donor priorities; assured use of qualified personnel; strong auditing, monitoring, and evaluation; and empowerment of civil society groups and private sector actors. Disadvantages included the creation of "islands of development" that reach only a few; a failure to strengthen local institutions, especially public sector organization; lack of sustainability if no one assumes responsibility for project continuation, the project conflicts with local customs, or the central government is either uninterested or hostile to the project. Project assistance was often a "workaround," bypassing government agencies that lacked capacity or were corrupt in order to employ NGOs or private contractors as substitutes (PPC 2005a: ix). If, in the end, government agencies are needed to keep a project going past the period of assistance, project aid will have been self-defeating.

Unlike project assistance, NPA was based on a generalized transfer of resources, although the precise method for transferring resources to the host country government varied. Sometimes the transfer consisted of foreign exchange, sometimes commodities; in both cases, the external resource was used by the host government to generate local currency for use by government agencies in agreed ways.

NPA was intended to address the disadvantages of project assistance. Instead of "working around" the technical and institutional weaknesses of host governments, the correction of those weaknesses became the centerpiece of aid. Also known as "program assistance," NPA was the modality of choice for *policy reform*—a series of efforts on the part of donors to correct the institutional and programmatic deficiencies of host governments. Often these efforts were aimed at various sorts of privatization, economic liberalization, or public-sector decentralization, as well as budgetary reallocation. Policy reform through NPA came in two major types: sectoral (or sub-sectoral) reform and general budget reform not aimed at a single sector. Sectoral reform was supported by earmarked funds with conditions attached, while general budget support (GBS) was delivered without earmarking or conditionality (PPC 2005a: ix). In both cases, funding was channeled through the host government, which bore responsibility for programming and monitoring expenditures. The Africa Bureau looked on NPA as having two objectives: policy reform was primary, but in addition the infusion of financial resources was itself expected to enhance economic growth (Bureau for Africa 1992: 13).

It is apparent that one of the major motivations behind the use of NPA is shared with strengthening country systems: the neglect of recipient governments in a project-based approach. Many of the same concerns also apply to both, especially a concern with fiduciary risk. While efforts to strengthen country systems have often sought simply to make use of existing systems (ODI 2012), NPA never simply "used" government systems to deliver assistance, as will be seen below. Rather, NPA was accompanied both by policy reform and by capacity-building efforts, even when NPA consisted of generalized (non-sectoral) budget support. Policy reform clearly was focused on organized *systems*, not individual government agencies. Policies affect systems—institutional arrangements that cross organizational boundaries and levels as well and public and private sectors. Policy reform objectives were understood to require both changes in institutional structure—the rules of the game governing a system—and improvements in the technical capacity of organizations that operate in those systems. Because of NPA's consistent focus on systems and their improvement, there is much in NPA experience that can be used to inform current efforts to strengthen country systems.

III. Sectoral Policy Reform

NPA was widely used to support policy reform in agriculture, health, and education sectors. This review includes examples from each of these sectors.

Agriculture Sector

Africa was the scene of numerous policy reform programs in the agriculture sector. Two programs from Cameroon provide part of the background for this paper:

- The Fertilizer Sub-Sector Reform Program (FSSRP), launched in 1988, aimed at the creation of a competitive market structure to replace a government monopoly for importing and distributing fertilizers. The 5-year program used $17 million in non-project assistance to establish a revolving credit fund that would ease the entry of private importers and distributors. FSSRP was conceived as a transitional arrangement, facilitating the shift from government monopoly to a market-based system that would operate free of subsidy and price control (Oakerson, *et al*, 1990: 1).
- The Program for Reform of the Agricultural Marketing Sector, Phase I (PRAMS I), begun in 1990, ended the government's dominance of coffee exports and facilitated the restructuring of coffee marketing cooperatives to determine producer prices (previously set by government decree) and manage their own exports. An $18 million program paid out in four disbursements, PRAMS I supported the payment of arrears to coffee farmers, dismantling of the National Produce Market Board and the transfer of its assets to coffee cooperatives, and elimination of the government-managed arabica coffee stabilization fund. A

companion project delivered technical assistance (TA) to coffee cooperatives during a 3-year transition period. As discussed below, NPA is often accompanied by project assistance of the TA variety.

Similar programs were undertaken in a number of African countries. For example: in Mali, a cereals marketing liberalization program supported policy reforms designed to legalize private sector marketing of grain by farmers; in Somalia, reforms supported the elimination of price controls for many crops; programs in Senegal privatized seed delivery as well as the import and distribution of fertilizer and rice; and policy reforms in Zambia permitted cooperatives to sell across provincial borders, eliminated subsidies to transport parastatals, and allowed private trading for all agricultural commodities (see summaries in Vondal 1988: 9-16). In all of these cases, a central focus was placed on changing the "rules of the game" related to the marketing of agricultural inputs or products and managing a transition from government-dominated to market-based arrangements. This contrasts with a focus on shifting budgetary allocations in the health and education sectors.

Health Sector

In 1994, Abt Associates reviewed the use of NPA in health sector policy reform across Africa, focusing on programs implemented in three countries: Niger, Nigeria, and Kenya. Writing for Abt , Setzer and Lindner (1994: 9) identified three major reform objectives: *health finance reform*, both to increase the allocation of financial resources to the delivery of health services and to improve the allocation of resources within the health sector; increased emphasis on *primary care*; and *decentralization* of planning and management to local government agencies. Finance reform often included better cost recovery through user fees, a basic change in the rules of the game. Largely a public sector service throughout Africa, health policy reform in Nigeria included promoting privatization.

Each program was nonetheless tailored to the specific country in terms of both level and type of support (see Setzer and Lindner 1994: 12, 13, 17, 21):

- The Niger Health Sector Support Grant (NHSSG), initially planned for a 5-year period beginning in 1986 but subsequently extended to 1995, was a $15 million program aimed primarily at cost recovery and cost containment while improving resource allocation, upgrading personnel, increasing planning capacity, and promoting family planning.
- The Kenya Health Care Financing Program (KHCF) provided $9.3 million to three organizations—the Ministry of Health, Kenyatta National Hospital, and the National Hospital Insurance Fund—the latter aimed at enhancing the insurance finance of health services by increasing the number of insurance claims.
- The Nigeria Primary Health Care Support (NPHCS) program used $25 million in NPA support to encourage the transfer of primary care service responsibilities from federal and state levels to local governments and shift the primary care emphasis from curative to preventive services.

Education Sector

Policy reform aimed at the education sector was also found throughout Africa: non-project assistance to support reform in education amounted to more than $250 million spread across eight countries in the mid-90s.

Reviewing a number of these programs for the Africa Bureau, DeStefano and Tietjen (1995) noted that "all of the education NPA programs developed in sub-Saharan Africa have centered broadly on *systemic changes* that can lead to sustainable reforms" (1995: 5, emphasis added). The commonality with current programs intended to "strengthen country systems" is apparent. The major systemic change sought in the education sector was "to establish a sustainable financial base for primary education" (DeStefano and Tietjen 1995: 6). The set of policy reforms on which NPA support was conditioned resemble many of those used in the health sector: increasing budget allocations for education while shifting allocations toward primary education; increasing support for educational materials while reducing support for administration and personnel; transferring a portion of the financial burden for supporting higher education to the private sector; and targeting increased resources to "children, especially girls, in rural, poor, and otherwise disadvantaged areas" (DeStefano and Tietjen 1995: 6-7).

Among the programs reviewed, the policy reform program in Ghana was distinguished by the use of earmarked support that created a special fund to receive sectoral aid. This allowed USAID to monitor implementation of the desired reforms much more closely, resulting in better reform implementation, but it lacked the potential to strengthen Ghana's more general budgetary process and the position of education funding within that process (see DeStefano and Tietjen 1995: 15).

An earlier program in Zimbabwe—in 1983, one of the earliest examples of NPA—pursued a much different emphasis, focused on "expanding access and maintaining quality at the secondary level" as well as university education, in major part to support teacher training (Method, Evans, and Chekenyere 1999: 25). Non-instructional infrastructure and instructional materials were viewed as important, and, as in Ghana, local currency was earmarked for education uses. Patterned after successful initiatives in the agriculture sector, the Basic Education and Skills Training (BEST) program made resource mobilization a key focus, utilizing multiple sources: increased school fees and their utilization at all levels while reducing subsidies, required tuition at the tertiary level while offering students loans rather than grants, and reliance on local communities to build and maintain school buildings and private-sector employers to fund technical training (Method, Evans, and Chekenyere 1999: 26).

The cases reveal two tensions in the use of NPA for policy reform: earmarking versus more general budget support as the mechanism for delivering financial assistance, and basic changes in the rules of the game versus budgetary reallocations as mechanism for achieving systemic change. One policy reform mode both abandoned earmarking and focused almost exclusively on budgetary processes: general budget support (GBS).

IV. General Budget Support (GBS)

In contrast to sectoral support, GBS deliberately left budgetary priorities open to discussion within the host government and between the host government and donors. Funds were not earmarked; rather, the host country's budgetary process was relied upon to follow an agreed plan. Reform was focused on the budgetary and financial accounting processes.

A PPC-commissioned paper summarized GBS experience in five countries: Malawi, Mozambique, Nicaragua, Tanzania, and Timor-Leste (PPC 2005b). Common to that experience was an attempt "to use performance targets to guide disbursements, as opposed to ex ante conditionality" (PPC 2005b: 5). Sectoral policy reform typically relied on a series of NPA disbursements with certain conditions having to be met prior to a disbursement taking place. This "conditions precedent" consisted of specific reform measures being implemented, not simply planned. GBS attempted to move away from the use of conditions precedent, preferring instead to focus on performance evaluation based on outcomes, such as poverty reduction. These studies become the basis for donor discussions with the host government.

The principal drawback to GBS was understood to be "fiduciary risk," the risk that actual expenditures will diverge from authorized expenditures. It is one thing to make policy and establish revenue and spending targets; it is quite another to implement policy and achieve those targets. Fiduciary risk was assessed as high in Mozambique, Tanzania, and Malawi; low in Timor-Leste, and recently reduced in Nicaragua due to a change of administration (PPC 2005b: 9). Weak systems of accountability explain much of the higher risk. In contrast, project assistance avoids fiduciary risk associated with the host government, and sectoral reform reduces risk through the use of conditions precedent to disbursement.

The upside is thought to be greater host government "ownership" of policy changes, provided those changes actually occur. Unclear in the discussion of GBS is whether ownership is a *consequence* of GBS or a *prerequisite* to its successful use; some of both may be in play. Several features of GBS may attenuate ownership, however. GBS is highly correlated with donor coordination, to the extent that it is sometimes viewed as donors 'ganging up' on the host government to leverage a commitment to donor-desired reforms (PPC 2005b: 6, 20). Such perceptions do not enhance ownership, though they may induce short-term cooperation. Most donor effort in GBS is concentrated on the executive branch of government, with the result that GBS does not improve overall democratic governance (PPC 2005b: 10). Ownership is executive and administrative, not necessarily legislative or public ownership.

V. Dimensions of NPA and Policy Reform

The use of NPA to support policy reform had several important dimensions as practiced. These include policy dialogue; institutional analysis together with social and political analysis; monitoring and evaluation; inter-ministerial and public-private decision-making arrangements; donor coordination; and technical assistance to strengthen capacity. From these dimensions lessons can be learned for the work of strengthening country systems more generally. Each dimension is discussed below.

Policy Dialogue

Donor representatives who have used NPA to support policy reform see policy dialogue with host government officials as "a very important element of their assistance" (Beasley 2006: 3). This generalization holds for both sectoral reform and GBS. Donors believe that they gain influence in the host country's policy process through dialogue, and obtain commitment—at least formally—to a set of reform measures or performance targets. It is important the policy dialogue be sustained through the period of policy commitment and into policy implementation. In this sense, dialogue never ceases; it is continuing throughout the period of NPA support. Dialogue at its best is a two-way street, as the term implies. Both donor representatives and host country officials are expected to learn from the process and modify their expectations accordingly: both need to "own" the reforms sought.

S. Tjip Walker (1994: 21-26) provided a detailed account of the policy dialogue that produced the Fertilizer Sub-Sector Reform Program (FSSRP) in Cameroon. USAID/Cameroon began the process with information dissemination at the technical level in relevant ministries, stressing cost savings to the government from eliminating subsidies and to consumers from increased efficiencies. Discussions continued at this level for some months in late 1986 and early 1987—Cameroonian concerns focusing on a potential reduction in fertilizer consumption were the price to increase. In March 1987, the USAID Mission circulated a concept paper within the Cameroonian government, tying subsidy reductions to increases in crop prices and adding the creation of a credit facility to encourage private-sector participation. Although officials at the technical level responded with skepticism to a proposal as radical as privatization, response was more positive at senior levels, where the country's deteriorating economic situation was having an impact. Next the concept paper was circulated among private sector actors—bankers, importers, and co-op managers. By late July, USAID and government teams began meeting to negotiate an agreement. The government team was led by the Director of Planning in the Ministry of Plan and Territorial Administration and included representatives from all affected ministries. Over a 4-week period the negotiators worked out a 6-point plan:

1) The government would withdraw from fertilizer procurement and distribution.
2) Subsidies would gradually be eliminated, with the actual subsidy to be negotiated annually based on a review of producer prices and fertilizer demand.
3) The government would transfer subsidy payment to a commercial bank.
4) In a concession to the government, USAID backed away from full market pricing and agreed to "target ceiling prices" to assure that farmers would benefit from the subsidy paid to importers and distributors, while still taking into account the variable costs of delivery to farmers located around the country.
5) NPA funding would be used to create a credit fund for importers and distributors to provide short-term working capital.
6) The inter-ministerial committee that negotiated the agreement would be reconstituted as a Technical Supervisory Committee to monitor program implementation.

Policy dialogue was critical to the design phase of the program in that virtually all of its major features were a product of negotiation, with both parties adjusting their expectations in the end. The outside perspective and expertise brought to the table by USAID was matched by country-specific knowledge and concerns pressed by government negotiators. The result was a well designed, *system-wide* program that *took account of all key actors, public and private, and their incentives,* allowing the program to accomplish important objectives with *minimal disruption* to the fertilizer sub-sector. FSSRP's success paved the way for the policy dialogue leading to PRAMS I, which negotiated the withdrawal of the government from its role as coffee exporter, extending export rights to the private sector, including cooperatives, as well as the decontrol of producer prices.

Policy dialogue was no less important in the health and education sectors. Just as policy dialogue allowed for a systemic approach to fertilizer reform in Cameroon, Setzer and Lindner (1994: 33) argue that a key benefit of NPA is its capacity "to sustain a detailed and consistent dialogue with host governments as to the specific policy priorities for the health sector as a whole." They further note that policy dialogue can be useful, even if it does not lead to program assistance (1994: 31), for it may still contribute constructively to the in-country deliberative process. In Zimbabwe, policy dialogue concerning education reform not only produced "no major disagreements" over policy objectives but also resulted in shared skepticism about the feasibility of some program elements (Method, Evans, and Chekenyere 1999: 18). Joint awareness of potential problems is both a sign of candor and a valuable management asset as implementation proceeds. Policy dialogue produces not only a *quid pro quo*—a bargain that exchanges financial support for policy changes—but also a working relationship, one that can provide a basis for ongoing collaboration.

The GBS process rests on policy dialogue that is ongoing, required in order to assess performance and set future performance targets as implementation proceeds. This occurs both at the outset of the NPA program and periodically as funds are released. In GBS policy dialogue, the government's lead representative is normally the Ministry of Finance. Policy dialogue is a principal instrument for obtaining host country ownership of reform, viewed as the hallmark of GBS (see PPC 2005b: 3-4), though this was no less true of sectoral reform.

Among the cases reviewed for this report, USAID/Cameroon's FSSRP and PRAMS I were distinguished by the considerable attention given to discussions with private sector actors—bankers, importers, distributors, and cooperatives. This was owed in part to the nature of the sector and the reforms sought—liberalization and privatization—whereas both health and education reforms address mainly public sector actors. There is much to be said for policy dialogue that models consultation with private sector actors when considering reforms that directly affect them, involving representative actors that take on all of the major roles in the relevant system. Host country policy makers gain a better sense of the system—its membership and boundaries—as well as the incentives and constraints they face. The same can be said of policy dialogue related to public sector systems for including representatives from regional and local levels in addition to central ministries.

Institutional Analysis

Writing for the Office of Development Planning in the Africa Bureau following a review of 15 NPA cases in Africa, Vondal (1988: 41) recommended that missions be "required to undertake social and institutional analysis, in concert with economic analysis, for designing non-project assistance." Moreover, social and institutional analysis should "*inform* program design" (Vondal's emphasis), so that program design might better address existing social and institutional constraints in relevant sectors and increase sustainability beyond the life of the program.

The following year, in 1989, USAID/Cameroon sought out institutional analysis expertise to guide its implementation of FSSRP and, in 1990, its design of PRAMS I. The particular form of institutional analysis the Mission eventually embraced was derived from the Institutional Analysis and Development (IAD) framework associated with the Workshop in Political Theory and Policy Analysis at Indiana University, now known as the Ostrom Workshop named for its founders, Vincent and Elinor Ostrom. IAD views institutions as "rules of the game," which structure patterns of interaction among policy actors in specific material or technical contexts, producing outcomes of interest. The focus of the analysis is on incentive structures, derived jointly from the material-technical context and the relevant rules. Institutions lead to productive patterns of interaction when the rules fit the context in which they are applied and therefore generate appropriate incentives (see Oakerson and Walker 1997).

Especially useful in understanding the design of FSSRP and in guiding the design of PRAMS I was the concept of industrial organization, adapted by IAD analysts from economic theory to include the public sector as well as the private sector. An industry, whether public or private, is a multi-organizational arrangement that relates specialized producers and distributors to one another for the supply of identical or highly similar goods or services. Industries can be highly integrated or highly differentiated at each stage of production, depending on what is being produced and the economies of scale present at each stage. The *governance* of an industry refers to the process of prescribing, invoking, applying, and enforcing rules that regulate the interaction of industry actors, whether private firms/cooperatives or government agencies or both. The impact of policy reform undertaken at the national level often depends on how those reforms affect the governance of relevant industries (whether fertilizer or coffee, health or education industries) and how governance in turn affects industry performance, as measured by standards of economic efficiency and equity. Sorting through these effects is an analytical task of importance in policy reform (see Walker 1994), and it may be equally important for strengthening country systems more generally.

Public sector industries are interesting for the distinction that arises between the provision and production of goods and services (see Oakerson 1999). Think of the difference in the U.S. between a school district—a provision unit—and a school—a production unit. Provision refers to processes that articulate and aggregate demand for public goods and services, including revenue-raising processes, while production refers to processes that convert inputs into outputs, e.g., maintaining infrastructure or delivering services. The provision side of a public service industry can be organized quite differently from the production side. Provision and production can be connected in various ways: integrated in the same organization or separated and carried out by different organizations linked either by inter-organizational agreements or by contracts. Provision can also be distributed among nested levels of organization with different levels providing for different elements of a closely related set of services; the same can be true of production. The potential flexibility in the organization of a public service industry creates numerous possibilities for adjusting the relationships among public sector actors to achieve better outcomes. Although widely applied in the U.S., in both metropolitan and non-metropolitan regions, these possibilities have barely begun to be realized in developing countries (see Meagher, Commins, and Clement, 2006, for potential application to fragile states).

While the use of IAD in policy reform was unique to USAID/Cameroon, the importance of institutional analysis to policy reform is universal. Institutional analysis can inform policy dialogue as well as program design. Industry analysis in particular, which identifies the major actors and their roles in an industry, can help in choosing the participants in policy dialogue. Understanding the constraints to the achievement of an end-goal, e.g., a competitive market in fertilizer, can lead to a transitional structure that addresses those constraints. Learning how the distinctive characteristics of arabica coffee constrain its supply informs the choice of institutional arrangements for arranging that supply (Oakerson 1994), i.e., choosing between private traders (more likely to fail in this case) and cooperatives (less likely to fail). Constraints to revenue generation in particular country contexts can affect the choice of cost recovery instruments in education or health. School fees that appear unnecessary in some institutional contexts may be a useful instrument in another context alongside other mechanisms. It is difficult to strengthen country systems without understanding the system in place—how it works and under what circumstances it fails to work well.

Institutional analysis is accompanied by social and political analysis of conditions that, in many cases, are highly variable and can change quickly. Policy reform often must await windows of opportunity, understood in political terms. Keeping abreast of political changes is imperative if opportunities are to be seized when available. An election and change of administration can either open or close windows for reform and change.

Monitoring and Evaluation (M&E)

In policy reform work, ongoing M&E is part and parcel of an extension of policy dialogue through the period of implementation. In general, policy reform was characterized by intensive monitoring, conducted on a regular and frequent basis and often leading to mid-course adjustments in programs. In Cameroon's FSSRP, USAID worked in an ongoing way with an inter-ministerial technical supervisory committee while allocating more than $3 million to a series of annual program reviews and other studies (Walker 1994: 26). PRAMS I supplemented the annual review process with intra-annual reviews, employing an outside assessment team (Oakerson 1994). In the health sector, USAID Missions were seen to "expend considerable effort" in monitoring policy reform progress toward established benchmarks (Setzer and Lindner 1994: 36).

Annual (or more frequent) cycles of review provide opportunities to correct errors and take account of unanticipated consequences. The link between monitoring and ongoing policy dialogue is critically important. Experience is best monitored by talking with and hearing from those who directly experience the reform process underway; in Cameroon's FSSRP, this occurred in annual review seminars. Monitoring leads to problem identification, which leads to discussion of alternatives, then to potential program modifications. As Walker (1994: 55) noted, "During Year 1, every single transaction encountered difficulty with one or more of the provisions [rules]" that constituted the privatization structure in FSSRP. Difficulties led to requests for waivers, some of which were granted, and at year's end to modification of the rules. Process monitoring of the latter sort was accompanied by impact monitoring, which required hard data. Monthly reports by the bank managing the program's credit scheme were supplemented by annual farm-level surveys to measure changes in demand for fertilizer.

In GBS, ongoing M&E was necessitated by its performance emphasis, focused on outcome indicators, with the expectation of program adjustments along the path of reform (PPC 2005b: 4). An assessment of GBS in Nicaragua, however, concluded that "results monitoring" alone can fail to reveal problems in a timely fashion, often when it is "too late for corrective action" (PPC 2005a: 25). Similarly, a review of health sector reforms found that people-level impact indicators were difficult to come by, suggesting that it "may be more feasible to monitor changes in services delivered or utilized" (Setzer and Lindner 1994: 39). The information and analysis needed to correct program flaws in a timely fashion is more focused on process and intermediate effects than on people-level outcomes.

Inter-Ministerial and Public-Private Decision-Making

A prominent feature of NPA that emerged early on in its history is the use of broadly based consultative groups composed of representatives of various relevant government ministries. The BEST program in Zimbabwe created a Working Group composed of representatives of five ministries plus USAID (Method, Evans, and Chekenyere 1999: 22). The group decided how the NPA's local currency would be "allocated and coordinated among participating ministries." To carry out this task, the group solicited proposals from implementing agencies and developed criteria to evaluate them. Proposals "were aimed at specific actions to overcome key constraints" to policy reform. USAID participated directly in these discussions. The process received high marks from participants for its collegiality, and USAID staff were "remembered for helping facilitate but not direct the BEST programs." Method, Evans, and Chekenyere (1994: 24-25) comment that such strong reliance on a host country consultative group to make program decisions "was unusual for USAID programs," but was critical to BEST's success, given the complexities of the reform process and the requirement of inter-ministerial coordination; moreover, it led to host government "empowerment." In Cameroon, both FSSRP and PRAMS I relied on similar inter-ministerial groups to coordinate and monitor progress toward reform benchmarks, with USAID representatives interfacing with the entire group.

The nature of NPA—both its reliance on government actors and its systemic focus—necessitated inter-organizational arrangements for program decision-making during implementation. When local and private actors are involved in implementation, it may be important to include them in decision-making. Vondal (1988: 39) noted that the success of policy reform often depended on local level decisions and, moreover, that programs seeking to transfer functions to the private sector should not treat the private sector as an unexamined "black box." Programs suffered when these features were lacking or deficient. In Niger's health reform process, for example, the Ministry of Public Health and Social Affairs failed to assign sufficient personnel to grant activities, and USAID ultimately decertified the secretariat established by the Ministry of Planning to disburse program funds (Setzer and Lindner 1994: 14). In Nigeria, USAID appears to have worked primarily with the Federal Ministry of Health in spite of an important decentralization component involving local government agencies as well as the expected privatization of some services; the program experienced delays due to non-achievement of benchmarks that functioned as conditions precedent (Setzer and Lindner 1994: 22).

Policy systems generally involve actors from multiple public agencies spread across various central ministries as well as both local public agencies and private sector actors. System-level decision-making and coordination requires system-level participation in decision-making. Within the public sector, it is important to recognize that government is not a single actor. "Government ownership" of a program can vary significantly across ministries and between levels. Without broad-based participation, donor actions can end up favoring one ministry over another, promoting more conflict than collaboration, though some degree of conflict among ministries can be viewed as normal and healthy (see PPC 2005a: 27-28). These considerations apply especially to GBS programs, which typically feature inter-ministerial budget support groups. The composition of these groups, however, can be a concern. PPC's assessment of GBS in Nicaragua revealed donor dissatisfaction with that country's budget support group, noting that host government representatives adopted a role the donors considered too passive: their meetings were convened by donor representatives instead of a high-ranking host government official and the lead government representative was chosen not from the Ministry of Finance, as might have been expected, but from the Ministry of Foreign Affairs (PPC 2005a: 21).

Donor Coordination

An important variable among policy reform programs is the degree of coordination required of, and attained among, donors. Donor coordination is explicit and strong in two instances: the use of a sector-wide approach (SWAp) and GBS. A SWAp goes beyond sectoral aid undertaken by a single donor to embrace all donor activities in a sector. SWAps have been used in agriculture, health, and education sectors with USAID participation (see Beasley 2005: 7). GBS depends heavily on donor coordination because of the focus on performance targets measured by outcomes. Donor groups have sometimes acquired "considerable voice in the policy dialogue and national-level impact on the allocation of resources" (PPC 2005b: x), while nonetheless reducing transaction costs for host country governments in securing foreign assistance.

The principal constraint to donor coordination consists of philosophical differences regarding what constitutes good development. In the agriculture sector, for example, European donor agencies historically leaned to supporting smallholders, while USAID was more inclined to support larger scale agricultural producers (Beasley 2005: 7). Such differences can make sector-wide donor coordination difficult, if not impossible. Of course, some differences can be worked out. In Cameroon, USAID found itself in disagreement with the World Bank's preference for rapid introduction of private traders into the arabica coffee growing region, whereas USAID wanted first to strengthen the existing structure of marketing cooperatives (Walker 1994: 76). In this case, USAID was able to persuade the Bank to delay the introduction of private traders while USAID carried out a co-op strengthening project. Tacit donor coordination is likely to be more common than the formal variety found in SWAps and GBS programs.

Technical Assistance (TA): Companion Project-Based Aid

Lack of technical capacity in implementing agencies was, for most donors, "the single greatest obstacle" to the substitution of NPA for project assistance (PPC 2005a: 20). This often resulted in the design of technical assistance (TA) packages to accompany policy reform programs. NPA and project assistance were then tied together in a single, integrated donor effort—projectized TA being used to increase the capacity of host country organizations, both public and private, to participate in non-project assistance.

TA became especially common in GBS programs—this is because GBS relies on the host government's financial, accounting, and procurement systems rather than the donor's systems, as in project assistance. Four of the five programs reviewed by PPC in 2005—in Mozambique, Tanzania, Nicaragua, and Malawi—supported the introduction of integrate financial management systems in the central government by means of project aid (PPC 2005b: 7-8). These systems were viewed as crucial to the success of GBS. Unaddressed were capacity constraints in management capacity as distinguished from technical capacity, as well as local government capacity constraints of both sorts (PPC 2005b: 8).

Differences in capacity among line agencies in the host government are especially troublesome. Superior capacity in one ministry, e.g., the Ministry of Finance, can tilt decision-making toward one set of policy goals at the expense of another, when a more level playing field in the required negotiations among ministries is to be preferred (PPC 2005b: x). Focusing TA on a single ministry instead of recognizing the system-level concerns that implicate multiple ministries is problematic.

A systematic assessment of institutional capacity, across ministries, and a strategic approach to strengthening that capacity where needed are essential to the success of NPA. Although especially true of GBS, the generalization applies to sectoral reform as well. Health sector policy reform in Africa exhibited variation in the degree to which NPA was tied to projectized TA (Setzer and Lindner 1994: 6). In Kenya, for example, NPA was effectively combined with project-based TA, helping to produce sustained progress toward policy reform objectives; in Nigeria, no funds were allocated for TA projects, with the result that monitoring had to be carried out entirely by USAID Mission personnel, and progress toward policy reform benchmarks was slow (Setzer and Lindner 2005: 17, 22). Education sector reform focused companion TA projects on increasing Ministry of Education capacity in budgeting and financial accountability, when needed (DeStefano and Tietjen 1995: 8). In contrast to other policy reform programs, the BEST program in Zimbabwe used NPA funds to support technical assistance by relying on host country contracting procedures—68 percent of BEST foreign currency resources being spent on TA (Method, Evans, and Chekenyere 1999: 16-17).

TA must sometimes include private sector organizations as well as public agencies, depending on the boundaries of the relevant system being reform or strengthened. This was the case in Cameroon's PRAMS I (Oakerson 1994). The liberalization and privatization of arabica coffee marketing had both a policy reform component implemented by government agencies and a cooperative restructuring component implemented by existing cooperatives. Cooperative restructuring was crucial to the success of the policy reform, yet government agencies clearly lacked the experience and capacity needed to assist the needed restructuring. USAID therefore took on that responsibility itself through project assistance delivered to the North West Cooperative Association (NWCA), a federation of cooperative unions, each of which represented a number of primary societies. Policy reform and project-type assistance proceeded hand-in-hand.

VI. Conclusion: Lessons Learned for Strengthening Country Systems

Even if not directly tied to policy reform, and even if not employing the conditionality typical of sector-based assistance, efforts to strengthen country systems can learn from NPA experience. The key is the nature of a *systemic approach* to assistance. *Country systems have institutional boundaries that cut across government ministries, levels of government, and public/private sectors.* The system goes where the relevant activity leads—whether it is trade, public service delivery, environmental protection—implicating system actors located in various institutional spaces.

For example, one important dimension of a country's economic system is the organization of supply chains, also known as "value chains" in recognition of the value-added at each link in the chain. Various ministries and private sector actors may be implicated in the governance of supply chains, including perhaps both trade and agriculture ministries, marketing cooperatives, trade associations, export processing zones, and private firms. A systems approach must take into account all relevant actors, their roles and relationships—in terms of institutional analysis, understanding rules-in-use that specify who decides what in relation to whom (Oakerson and Walker 1997). Industrial organization models as employed by institutional analysts are also relevant to the analysis of value chain relationships. Indeed, USAID/Cameroon's PRAMS I can be considered a precursor of current value chain-focused development. Strengthening country systems may often require changes in the rules governing system activities and relationships; rule change is one important variety of policy reform. In this way many of the lessons derived from NPA experience are directly applicable to systems and their strengthening.

Even if policy reform *per se* is not the focus of assistance, policy dialogue (or an analogous process) may be useful, perhaps essential. Dialogue is valuable for the mutual learning that occurs between host country and donor representatives, learning that can lead to better assistance. In some cases, dialogue may lead to policy changes even if aid is not tied to reform. Studies of policy reform have been generally unable to demonstrate whether NPA actually leveraged reform or simply contributed the financial resources that made reform possible. In the absence of experimental conditions, the nature of the causal relationship between aid and reform cannot be clearly determined. Some case studies suggest, however, that policy reform worked best when the commitment to reform did not derive simply from a *quid pro quo* exchange between donor and host government, but rather reflected a genuine commitment on the part of host country officials to the reform and its objectives—ownership of the reform. NPA works better when there is a high level of preexisting support (Setzer and Lindner 1994: 33). When policy dialogue leads to host country ownership, the absence of a quid pro quo—conditionality—is less relevant.

At the same time, however, donor participation in inter-ministerial or public-private decision-making groups, as well as monitoring and evaluation, can also play a useful role. Commitment to reform or change at the start of a development process does not necessarily translate into unobstructed implementation. Reforms agreed to by senior government officials, for example, can be effectively resisted or sidestepped by subordinates in implementing agencies, who may have a vested interest in the status quo. This is one reason that reform requires ongoing monitoring during implementation. The role of donors in such a case is to call attention to deviations from the path of reform envisioned at the outset. They play the role of team monitor in the economic theory of teams. Oakerson and Walker (1997) refer to this role as a "mediating" reform, helping to build relationships of mutual assurance and accountability among key actors in the particular country system. Even when reform promises to create system-wide benefits, some actors may be motivated to resist reform if doing so provides them with selective benefits at others' expense. The incentive to hold back from reform is especially strong if the outcome of the process is uncertain—if actors are unsure of one another's level of commitment to the process. Policy dialogue can strengthen that mutual assurance, and donors can reinforce it by helping to call attention to those instances when agreements are not being kept as expected. GBS experience demonstrates, moreover, that donors can exert leverage in the policy making process even in the absence of *ex ante* conditionality. Aid works best when both donors and host country representatives can approach the process from a problem-solving perspective, recognizing and dealing with problems as they arise, jointly engaging in an ongoing process of monitoring, evaluation, and dialogue.

Finally, the frequent lack of organizational capacity that often plagued policy reform is also likely to affect country systems strengthening. Technical assistance packages designed to accompany systemic changes may spell the difference between success and failure. Capacity studies are needed to determine those actors who need capacity enhancement if projected system changes are to be feasible. TA is as integral to strengthening country systems as it was to policy reform.

Dialogue, institutional analysis, monitoring and evaluation, inter-ministerial and public-private decision-making, donor coordination, and technical assistance—all are time-consuming, labor-intensive activities that require a diverse set of skills—skills of analysis and inquiry, negotiation, deliberation, and persuasion, not to mention political savvy. The early notion that NPA-based policy reform would reduce the managerial burden on donor missions was quickly dispelled. Donors who seek to strengthen country systems, like those who wanted to use aid to leverage policy reform, must be prepared to invest time and personnel in the process. The donor role is much different from the donor role in project assistance, however. Project implementation is largely financial and technical; NPA implementation is economic, political, and social. It requires entering into the host country's policy process as an integral participant, one who seeks to collaborate and facilitate, and sometimes to hold key actors accountable, joining with host country counterparts to identify and solve problems. The donor role comes with responsibilities that cannot be delegated to recipients. Acceptance of fiduciary risk does not entail an abandonment of all fiduciary responsibility. *To do otherwise is to create opportunities and temptations in the host country to use funds inappropriately.* The integrity of the donor-recipient relationship demands no less than donors prepared to meet their responsibilities to see that aid money is appropriately spent.

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