A.I.D. Microenterprise Stocktaking

by Cressida McKean and Joseph Lieberson

Over the years, A.I.D. has supported a large number of microenterprise programs and has been a major innovator and leader in this field. To better understand how this assistance has benefited microenterprises and to learn how to better focus future assistance, CDIE recently completed a Microenterprise Stocktaking Evaluation.

One of the major findings of the Stocktaking was that microenterprises are a heterogeneous group—with a wide diversity of problems and opportunities that require different solutions. Based on the recognition of this diversity, the Stocktaking identified three distinct assistance approaches that A.I.D. has used; these approaches match the economic constraints and opportunities of different types of microenterprises:

**Enterprise formation:** At the lowest level are the very poor or economically disadvantaged who want to start up a business. Assistance usually takes the form of a community development program designed to overcome the social and economic constraints that prevent the poor from becoming entrepreneurs. These programs tend to have a high cost per beneficiary, with social benefits being more important than economic benefits.

**Enterprise expansion:** The goal of the enterprise expansion approach is to improve the performance of existing microenterprises. This approach usually relies on minimal inputs (usually credit) to reach a large number of firms at a relatively low cost per beneficiary.

**Enterprise transformation:** The enterprise transformation approach strives to graduate larger clients up and out of the microenterprise sector. It is the most costly of the three approaches, because it requires considerable technical assistance and training. The higher costs are justified by the expectation of large, long-run benefits.

The Stocktaking concluded that each approach has its place in a microenterprise strategy, as long as designers are aware of relative costs and the types of beneficiaries each is best able to reach. These key indicators are shown in Table 1.

Several of the findings and conclusions of the Stocktaking are of particular interest to field Mission staff who are planning to include microenterprise development in their country strategies. These key findings include the following:

- Microenterprise programs reach the poor, but those in the lowest 20 percent of the income scale generally do not benefit from these programs as entrepreneurs. Rather, the poorest benefit from the employment opportunities generated by other microenterprises.
• Assistance provided to manufacturers generates more jobs than assistance to service- or commerce-oriented microenterprises.

• A $300 loan size appears to be consistent only with programs that provide small working capital loans and those are a minority of A.I.D.'s portfolio. The loan amount also is related to the approach used.

• There is often a tradeoff between concentrating on generating profitable and sustainable businesses and the goal of targeting special disadvantaged groups. The more successful programs focus first and foremost on the development of profitable and sustainable microenterprises.

• The enterprise expansion approach, which provides short-term working capital and minimal technical assistance and training, is the most cost-effective method of reaching the largest number of beneficiaries. Over the last 10 years A.I.D. has learned how to use this approach successfully. A.I.D. has less knowledge of what works best in technical-assistance-intensive programs for microenterprise development.

• Most microenterprise programs have been successful in bringing women into the development process. Women have a significant presence in programs that provide assistance specifically to urban commercial enterprises. The proportion of women beneficiaries is highest with the enterprise expansion approach and lowest with the enterprise transformation approach.

• Many projects find it difficult to graduate even their best performing microenterprises to commercial financial markets. Banks and other lenders usually are reluctant to deal with small borrowers. The study recommends that A.I.D. should try to graduate microenterprise programs and institutions to commercial sources of funds rather than try to graduate the microenterprise firms.

For further information on individual papers and country studies, contact A.I.D./PFC/CDIE, Room 200B, SA-18, A.I.D./Washington, DC 20523-1082, Attention Cressida McKean or Joseph Lieberson.

Sustaining Primary Health Care Initiatives: Findings and Suggestions From a Recent DAC Evaluation*

by Patricia J. Vondal

After 10 years of donor experience in implementing Primary Health Care (PHC) projects, the OECD/DAC conducted a review of 76 recent health sector project evaluations to determine what factors have affected the sustainability of PHC initiatives.

PHC is not a substitute for basic health services or hospital care; rather, it is a strategy to extend health services to more peripheral regions of a country and to improve the health of the population as a whole. The major focus of PHC is on community involvement in achieving an improved health status through preventive methods.

* This report is based on a document prepared by the Royal Tropical Institute of the Netherlands for the DAC Expert Group on Aid Evaluation, entitled “Primary Health Care: A Synthesis of 76 Recent Project Evaluation, Health Sector and Policy Documents of DAC Member Countries,” submitted January 1989.
<table>
<thead>
<tr>
<th>Program approach</th>
<th>Beneficiaries</th>
<th>Loan Size</th>
<th>Program Cost ($)</th>
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<tbody>
<tr>
<td></td>
<td>No. served</td>
<td>Women (%)</td>
<td>$ Average</td>
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<tr>
<td>Enterprise formation</td>
<td>328</td>
<td>59</td>
<td>54</td>
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<tr>
<td>Enterprise expansion</td>
<td>87,871</td>
<td>42</td>
<td>40</td>
</tr>
<tr>
<td>Enterprise transformation</td>
<td>264</td>
<td>27</td>
<td>60</td>
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</tbody>
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Notes:
\(^a\) Compares loan size with income level. If the country has a per capita gross domestic product of $150 and the average loan size is $300, the ratio would be 2.0. This indicator helps compare programs in countries with different levels of income. For example, a $300 loan in a country with a per capita income of $300 is quite different from a $300 loan in a country with a per capita income of $1,000.

\(^b\) Deflates the nominal or stated rate of interest by rate of inflation.
Factors Affecting the Sustainability of PHC Projects

The review found that four major factors seem to be endangering the sustainability and self-reliance of PHC initiatives:

(1) Donor investment in PHC can in some cases lead, at the host country level, to an increase in the need for personnel and organizational and material resources, which are all in very short supply or unavailable after donor withdrawal.

(2) Uncoordinated donor investments can lead to duplication, waste of resources, and other inefficiencies in a national health care system.

(3) Donor support in the health sector has created project structures that are poorly integrated into the health care system or not integrated at all. Conversely, chances for sustainability of PHC programs increase when they are integrated into the national health care system or built on existing structures.

(4) Donor commitment to projects in many cases has been limited to the traditional 3- to 5-year project period. Such a period is too short to achieve sustainable results in PHC.

In addition to these four major factors, at the host country level the sustainability of PHC projects has been adversely affected by a lack of management capability at all levels of health care systems, a training orientation for health sector workers toward clinic and hospital care as opposed to preventative care, and a lack of willingness to introduce cost recovery in cases where people can afford to pay. Financial sustainability is a crucial issue in an era when severe problems with balance of payments and recurrent budget deficits decrease the ability of governments to invest in health care systems.

The Project Cycle in Relation to Sustainability of PHC

The review showed that sustainability of PHC projects also has been affected by the way the project cycle is carried out. For example, in the project planning stage, the greatest lack of experience is in a participatory planning approach involving the population, a concept at the heart of PHC. This approach is necessary so that the population’s expressed needs are known—an essential step for future implementation and sustainability.

During project implementation, coordination between the donor office and the field office is also essential. In A.I.D. PHC projects, for example, project contractors, the host country’s ministry of health, the USAID Mission, and A.I.D./Washington often hold different interests, which are not mutually supportive. These unresolved and conflicting agendas directly contribute to the collapse of PHC projects.

Recommendations

The review synthesis provided the following major recommendations to overcome the constraints PHC projects have faced during each phase of the project cycle.

(1) To give sustainable aid in the health sector that is in line with PHC principles, during the planning phase of project design donors will have to allocate sufficient time and resources for the following:

- Systematic collection and sharing of relevant baseline data, including information on people’s expressed health needs
- Careful attention to the macro- and micro-economic variables that will influence project financing, with thorough calculation of recurrent costs and identification of sources that have agreed to finance them
- Close cooperation with the host country’s ministry of finance (and all other relevant ministries) to ensure that the proposed project design complements the country’s level of development and economic conditions
- Involvement of local policymakers and social scientists, the community, and particularly women and a systematic involvement of provincial, district, and local representatives

(2) In the implementation phase, the sustainability of PHC projects can be increased by the following actions:

- Involving all parties, including the community, host country policymakers from all levels involved, health service staff, and especially women
- Providing support for district-level management, which is necessary to help the decentralization process inherent in PHC projects, and to help improve community involvement
and adaptation to local needs (here, retraining and reorientation of health service staff has proved necessary, because most health professionals continue to receive hospital-based, clinically oriented training)

(3) In the evaluation phase, process indicators, in addition to quantitative output indicators, should be developed to make certain that the principles of the PHC concept are being maintained. These process indicators, and methods for measuring them, should include the following:

- At the community level: indicators of community participation and organization, leadership, changes in health knowledge and health behavior, and use of health resources
- At the service level: indicators for logistics, motivation and orientation of health staff, quality of services and support to community level

A final recommendation is to design built-in participatory evaluations for midcourse corrections.

(4) The context of PHC projects can be improved to increase their sustainability by the following measures:

- Having donors coordinate on an international level to discuss how PHC can be most effectively planned, implemented, evaluated, and sustained
- Developing a mechanism for regular communication among donors to be instituted in the capital of every host country
- Improving recipients’ capacity to fulfill the coordination function

## Design and Evaluation Methods

### Key Informant Interviews

*by Krishna Kumar*

Key informant interviews are a rapid, low-cost data collection method that A.I.D. staff, contractors, and host country nationals can use to determine what is actually going on in a project or to determine the characteristics of the project setting that will influence project design. The interviews have two characteristics: first, only a small number of informants (usually between 15 and 35) are interviewed; second, if they are skillfully carried out, they permit a free flow of information between interviewer and respondent. They are most useful when qualitative, descriptive information is needed to provide an understanding of underlying motivations and attitudes and when the questions ask for reasons.

Unless certain guidelines are followed during the selection of individuals to interview, the interview itself, and the processing of data, these interviews are not likely to yield reliable information about the situation being investigated. A forthcoming CDIE monograph, entitled *Conducting Key Informant Interviews in Developing Countries*, explains these guidelines in detail. What follows is a summary of the most pertinent aspects of that monograph.

**Formulate study questions.** Interviewers should first formulate the general questions for which the informants will provide information. These questions—for example, “In what project activities do women participate?”—relate to specific concerns of the interviewer. Study questions generally should be limited to five or less, so that the interviews will not be overly complex and difficult to sort out.

**Prepare an interview guide.** Key informant interviews are not carried out with rigid questionnaires. However, the interviewer must have a general idea of what questions to ask informants in order to obtain enough information to answer the basic study questions. Interview guides should list major topics or issues to be investigated under each study question. Different guides may be developed for different informant groups.

**Carefully select informants.** Informants should be selected because they have an intimate knowledge of the subject and represent a particular point of view. Government officials, academic scholars and experts,
local leaders, representatives of specialized groups, and members of the target beneficiary population generally make good informants and provide a balance of perspectives.

Undertake interviews with good technique and personal rapport. It is critical that the interviewer develop the proper techniques of eliciting specific responses and gaining interviewee confidence in order to obtain useful, reliable, and accurate data. As elaborated in detail in Conducting Key Informant Interviews in Developing Countries, these techniques include sequencing questions from the general to the specific, properly phrasing questions to obtain detailed information, judiciously probing to obtain more details, controlling the conversation to keep it focused on the relevant, and maintaining a neutral attitude so that informants feel that they have a right to speak openly without being judged.

Make sure that interview notes are adequately detailed. Develop note-taking techniques that will expedite the collection of information, including the actual responses and nonverbal mannerisms of the interviewee. Write up the notes soon after the interviews to ensure accuracy.

Analyze interview data. Reliable conclusions can be drawn from the usually voluminous interview data by using certain techniques. First, interview summary sheets, which summarize the main findings of each interview on one sheet, can be prepared. These sheets allow comparisons between interviewees to be made more easily. Interviews then can be "coded" by organizing responses under a number of categories of interest to the interviewer, such as "general description," "project effects," and "sustainability." Data can be stored and displayed as tables that summarize responses. The reliability and validity of findings can be checked by rechecking the reliability and representativeness of informants, by checking for interviewer bias, by checking for negative evidence, and by obtaining informant feedback.

**Evaluation System News**

**Team Planning Meeting Held for CDIE's Technical Assistance Effort**

On August 3 and 4, 1989, CDIE hosted a Team Planning Meeting to formally initiate its technical assistance effort. The meeting was facilitated by Larry Cooley of Management Systems International (M.S.I.) and attended by about 25 A.I.D. professionals representing all bureaus. The focus of the meeting was on methods and strategies for helping Missions develop strategic objectives, program indicators, and information gathering methods to measure achievement at the program level.

As explained in recent cables to the field, CDIE is offering to assist Missions in refining and expanding current program performance indicators into more comprehensive program management and evaluation systems, as well as in collecting, analyzing, and applying development information for program and project planning, management, and evaluation. The initial countries to participate in this effort will include Barbados, Bolivia, Ghana, Honduras, India, Kenya, Tunisia, and Zaire.

At the beginning of the Team Planning Meeting, the evaluation officers from the three geographic bureaus briefed the group regarding what each bureau is doing to help Missions develop program indicators and establish a system of accountability. The Africa Bureau has developed what it calls "The Uganda Game" to help Missions develop strategic objectives and objective trees ranking project and program activities into a hierarchy of necessary and sufficient steps to achieve progressively higher objectives. The Asia Near East Bureau is using a more individualized approach to assist Missions in developing program indicators and has no generalized methodology. The Latin America and Caribbean Bureau relies on the action plan process to hammer out program-level objectives for each Mission within its region.

On the second day, Cooley spent considerable time describing tools that can be used to help Missions develop program indicators, technical considerations of selecting and measuring indicators, and management considerations of initiating a program monitoring and evaluation system. The tools include objective trees, program log frames, the 2-by-3 objectives matrix, the program overview matrix, project paradigms, the revised project implementation review format, standardized indicators, data collection and analysis strategies, and Mission- and bureau-level monitoring and evaluation plans. Missions
should be aware that the management structure and processes can be impacted by initiating a program management rather than a project management system and that a more flexible, interoffice matrix or team approach may be more appropriate to assuring success.

The State of Evaluation in A.I.D.

by Nena Vreeland

CDIE recently sponsored a review of 287 evaluation reports prepared by USAID during fiscal years 1987 and 1988. The reviewers looked into the extent to which evaluations were already complying with standards in the new Evaluation Handbook (A.I.D. Evaluation Handbook, April 1987) and various quality characteristics of the evaluations, including scope, focus, method, and technique. Some of the results of the review verified what we thought we knew; others came as a surprise.

Most evaluations reflected the tendency in Missions to focus on the implementation concerns rather than on the results of projects. For example, over two-thirds of the evaluations were interim—carried out during implementation rather than toward the ends of the projects or after the projects ended. Almost two-thirds focused primarily on questions about project outputs, whereas just over one-fourth of the evaluations addressed questions about the extent to which projects were achieving their purposes and only 2 percent addressed questions about project goals. The availability of adequate data for analysis followed a similar pattern. Half of the reports had fairly complete data for analyzing project outputs, whereas data availability dropped sharply in the case of project purposes (19 percent of the evaluations had fairly complete data relative to purpose-level analysis) and project goals (4 percent).

A.I.D. staff participated directly as members of evaluation teams in only 29 percent of the evaluations, and host country representatives participated in 27 percent. If we regard the evaluation process itself as an important aspect of the role of evaluation in the Agency’s work, then these figures are a cause for concern. Although we do not have strictly comparable data from earlier years, we do know that the level of involvement—particularly, collaborative evaluation with the host country—was higher in the 1970s. The Evaluation Handbook encourages collaborative evaluation and involvement by project staff in interim, “formative” evaluations.

Sixty percent of the reports made some comment on project financial and program monitoring. On a 5-point scale, these evaluations rated 39 percent of the projects high (4 or 5) on adequacy of financial monitoring, and 43 percent were rated high for adequacy of program monitoring. It is reasonable to conclude that the Agency still has a way to go in upgrading monitoring systems to support active project management during implementation. A related finding was the heavy reliance of the evaluations on key informant interviews and, to a somewhat lesser extent, on site visits as sources of data. The evaluation teams made little or no use of rapid data collection techniques that would get them out into the field, such as focus groups or community interviews, direct observation in the field, and small formal or informal surveys. Neither our monitoring systems nor our evaluation exercises seem to be getting data and information that say something about actual project results.

Another finding was the lower-than-expected congruence between the recommendations made by the evaluators and the actions that Missions decided to take after the evaluations were completed. Somewhat less than half the recommendations were “USAID actionable,” with the remainder directed mostly to other parties involved in the projects. Given the low level of host country participation in the evaluations, there is reason to question whether these parties were involved deeply enough to commit themselves to action on the recommendations.

The issue of project sustainability appeared to be taking hold in Mission-sponsored evaluations, with fully one-third of the reports addressing this topic in some detail. Increasing attention to questions about sustainability, particularly in interim evaluations, could enable project managers to take additional steps to ground the project more firmly in the conditions of the host country. Once again, however, making this happen would seem to require a much greater degree of collaboration in the evaluation process.

Continuing Concerns About “the State of Evaluation” in A.I.D.

by Gerald Britan

In addition to the study summarized above by Nena Vreeland, other recent CDIE studies indicate a continuing lack of adequate monitoring and evaluation information on program and project performance at the Mission level. This lack is especially
significant, given the increasing emphasis by all three regional bureaus (and in proposed legislation) on managing programs and allocating resources based on development results.

According to a recent CDIE review, more than half (56 percent) of 75 program and project audits conducted by the Inspector General during fiscal years 1987 and 1988 found generally ineffective monitoring systems and little or no effort to evaluate program or project performance. Nearly one-quarter (23 percent) of the audits cited specific failures to measure performance at the purpose and goal level. Only two of the audits (3 percent) made positive references to improvements or capabilities.

Another CDIE study, surveying about 60 recent regional bureau project papers, provided little evidence of immediate improvement. All the papers included at least a cursory evaluation schedule, but only about one-quarter included even minimally adequate management information plans and less than one-tenth included information plans that were consistent with Evaluation Handbook guidance. The overwhelming majority of the papers made no mention at all of plans for systematically collecting information for monitoring and evaluation purposes.

Some recent initiatives provide more ground for optimism. The Africa Bureau, for example, is mounting a concerted effort to measure program performance in conjunction with the Development Fund for Africa and has sponsored several Mission-level evaluation workshops. The Asia Near East Bureau also has sponsored Mission evaluation workshops and has begun working closely with selected Missions to develop broader program performance information plans. The Latin America and Caribbean Bureau has conducted a number of Mission evaluation workshops and is mounting a substantial effort to improve project monitoring and evaluation planning.

As A.I.D.'s central evaluation office, CDIE is encouraging, supporting, and helping to extend all these efforts. CDIE has increased the availability of technical assistance for Mission evaluations, primarily in the areas of information planning; the use of rapid, low-cost methods; and evaluations of program performance. In collaboration with the regional bureaus, CDIE also is initiating a series of more intensive pilot efforts to develop broader program performance management and evaluation systems with selected cooperating Missions.

Field Perspectives on Evaluation

Cost Recovery Progress in Egypt

by Diane Ponasik

Hit by heavy debt rescheduling and declines in world commodity prices, many governments are forced to cut back expenditures in public goods and services. A.I.D. Missions worldwide are assisting these governments to introduce cost recovery mechanisms to replace public subsidization and to ensure the sustainability of a variety of activities in the infrastructure, productive, and human services sectors. The Government of Egypt (GOE), for one, has made significant strides in introducing user fees. USAID/Cairo's experience provides lessons that may be useful to other Missions currently wrestling with the problem of cost recovery.

Despite the Egyptian tradition of the social contract, which includes the notion of free public services, the GOE now acknowledges that there are limits to the services that GOE can provide free of charge. There is evidence that the Egyptian public is willing to pay for improved services, especially in the fields of rural infrastructure and health, if they perceive a causal link between payment of fees and improved service.

The Evaluation Division of the Office of Development Planning, Bureau for Asia and Near East, recently undertook a study of USAID/Cairo's progress in instituting cost recovery mechanisms in its portfolio. The Mission has accomplished this by undertaking a policy dialogue, both within projects and on the program level, that takes into consideration the International Monetary Fund recommendations to improve Egypt's economy. The Mission also is making an effort to build in appropriate cost recovery mechanisms in all of its future designs. Some of the mechanisms already in place are summarized below. These provide examples which other Missions may wish to use in their country settings.
Urban Infrastructure: Water, Wastewater, and Electricity

USAID/Cairo most likely will meet its 1991 objectives of covering 100 percent of recurrent costs (operation, maintenance, and debt service) for water and 50 percent of costs for wastewater by increasing user fees.

In addition, USAID/Cairo is attempting to institutionalize operations and maintenance (O&M) by supporting O&M training and the management support necessary to sustain it. The O&M Sector Support Project will institutionalize preventive and corrective maintenance schedules. USAID/Cairo also will help GOE to begin efforts to improve water conservation and reduce the estimated 40 percent loss now occurring after water is delivered to the premises. Egypt's recently increased ability to produce many sizes of water piping is further contributing to cost recovery by reducing foreign exchange needs for the water sector.

In the electric power sector, an increase in tariffs remains an important priority. Electricity consumption is heavily subsidized by GOE. Until rate increases made in March 1989, Egyptian Electricity Authority (EEA) revenues covered operation and maintenance costs (90 percent of revenues), including depreciation, but did not cover interest on foreign assistance commercial loans. EEA could not finance systems for system expansion, and the authority did not generate enough foreign exchange for spare parts procurement.

The new GOE tariff adjustments raised electricity prices to household, commercial, and industrial users by an estimated 30 to 35 percent. These increases should generate approximately $E350 million for the economy as a whole and $E81 million annually in additional revenues for EEA. USAID/Cairo also is attempting to help the GOE to reduce recurrent costs through efficiency and conservation in power generation and distribution.

Local Development

The Local Development II (LDII) Project emphasizes local resource mobilization and improved operations and maintenance in connection with recovery of recurrent costs. Fiscal decentralization (the legal authority of governorate or lower levels to maintain and control locally collected funds) remains a central issue with respect to cost recovery at the local level. In general, fees for government services delivered at the local level cannot be retained locally, nor do governorates have significant input into their disposition. Political and economic incentives for collecting appropriate user fees are therefore lacking. Changing national laws, ministerial decrees, and administrative regulations have created considerable confusion over the legality and feasibility of collecting and retaining fees locally. Lack of experience administering funds locally further constrains local cost recovery efforts. The local resource mobilization component of the LDII program is attempting to address this information and experience gap by producing a series of fiscal studies on such topics as cost recovery, budgeting, and village accounting systems. Pilot activities may be undertaken in some of these areas.

Despite ambiguity of government regulations, a few local governments have developed mechanisms for collecting, retaining, and controlling locally collected funds to cover recurrent costs of rural infrastructure projects. Two successful examples of cost recovery activities in the Delta governorates are a governorate-level public utility company charging realistic user fees and governorate use of voluntary contributions to cover operating and maintenance costs of service projects (for example, roads, water, wastewater).

Human Resources: Population and Health

Progress in the fields of health and population has been impressive, although audits of income-generating activities have complicated implementation of some projects with cost recovery components.

Several projects in the Health and Population Office, USAID/Cairo, have been particularly innovative and successful in recovering recurrent costs. A.I.D. health and population projects are emphasizing the principle of personal choice between subsidized services and private, user-paid services. Many Egyptians appear to be eager for better hours, shorter waits, more personal attention from medical personnel, and a choice of doctors.

Personal choice between free and user-paid services is a theme of the new A.I.D. Cost Recovery for Health Project, which will renovate 40 hospitals and 10 polyclinics. The hospitals will offer 60 percent of their rooms on a fee basis, and the other 40 percent will be free. Patients will receive the same basic health care, but fee-paying patients will have private rooms rather than accommodations in wards.

In population in the A.I.D. Clinical Services Improvement Project, fees for contraceptive devices, insertion services, examinations, and laboratory fees are charged by the participating clinics. Revenues generated from these fees are put into a special account and used to pay incentive fees to clinic personnel if the clinic reaches a variety of targets (defined in
terms of, for example, contraceptive accepters, revenue, couple-years of protection, or expense-to-revenue ratio). When sufficient revenue is generated, the funds also will be used to cover project expenses.

Agriculture

The Agriculture Production and Credit Project is assisting the Principal Bank for Development and Agricultural Credit to improve its credit system so that it can charge a high enough interest rate to recover administrative costs.

The Irrigation Management Systems (IMS) Project is developing cost recovery mechanisms for on-farm irrigation improvements. Results of this assistance should be available in fiscal year 1990. A Water User Association with a cost recovery component was established in el Minya by the Egyptian Irrigation Water User Management Project (EWUP). IMS is building on EWUP’s experience with the el Minya Water User Association to establish water user groups throughout Egypt as farmers’ incomes rise.

Lessons From USAID/Cairo’s Experience

USAID/Cairo’s experience with cost recovery illustrates that a multipronged effort is necessary for success. Typical approaches include the following:

- Fee structures often must be recalculated to obtain user fees from heavy users with greater ability to pay (such as heavy industries)
- Local government entities must be given the authority to collect user fees and also the training to be able to carry this out effectively
- Changes in legislation must accompany changes in organizational policy regarding user fees
- Local production of inputs previously imported with scarce foreign exchange resources should be encouraged so as to get the most out of cost recovery mechanisms
- Conservation and increased efficiency must be introduced so that user fees will adequately cover costs
- Individuals who pay user fees must perceive that they are getting better services for their money

New A.I.D. Impact Evaluation Series

CDIE recently initiated a new A.I.D. impact evaluation series. Three sectors have been selected: population and family planning, child survival, and policy reform. It is anticipated that about six country studies will be completed in each area. The topic coordinators from CDIE are Randal Thompson (population and family planning), Gary Hanson (child survival), and Joseph Lieberson (policy reform).

The new series is designed so that A.I.D. professionals will participate as team members. Each team will consist of an A.I.D. senior manager, an A.I.D. technical expert, and an A.I.D. evaluation expert. They will spend approximately 3 weeks in country for each evaluation. Team members will be different for each country. The final impact reports will be brief, tell an interesting story, and provide information suitable for management decisions.

Field Missions are encouraged to contact CDIE topic coordinators to recommend countries, team members, or issues for the evaluations to address.

New Evaluation and Development Information Indefinite Quantity Contractors (IQCs)

A.I.D.’s Evaluation and Development Information IQCs—among the most heavily used IQCs in the Agency—expired, as scheduled, on July 31, 1989. A new set of Evaluation and Development Information IQCs were awarded on August 1. The three contracts, awarded under an open competition to Management Systems International, a Louis Berger-Checchi and Company consortium, and the Academy for Educational Development, are available for immediate use. Two additional IQCs, awarded under Small Business Administration and Small Business Act paragraph 8(a) set-asides, should be available for use shortly.
Child Survival Impact Evaluations Initiated in September

by Gary Hanson

In collaboration with the Asia/Near East Bureau, CDIE has initiated a series of impact evaluations of child survival programs in Asia and the Near East region. The purpose of these evaluations is to document the impact of A.I.D. investments in improving child health, identify lessons learned from these efforts, and identify the agenda that A.I.D. and host countries will need to address in future programming for child survival activities.

The range of important issues being explored in the studies includes the role of the public and the private sectors in achieving program sustainability, the complementarity between child survival and family planning strategies, approaches to addressing recurrent costs and financial sustainability, and the effectiveness of multidenor coordination for country-level programming.

Egypt and Indonesia have been selected as the first countries to be evaluated, and in early October teams arrived in Jakarta and Cairo to undertake the evaluations. The Egypt team consists of Nancy Tumavick (USAID/Tunisia), David Calder (USAID/Nepal), Edith Houston (Bureau for Latin America and the Caribbean, Office of Development Planning), and Annette Binnendijk (CDIE), and the Indonesia team consists of Phyllis Dichter (USAID/Washington), Pam Johnson (Bureau for Science and Technology, Office of Health), and Mike White (USAID/Haiti)

Policy Reform in Grenada and Dominica: Recent Findings*

by Joseph M. Lieberson

Policy reform programs are an important and rapidly growing component of A.I.D.’s development effort. CDIE and the Africa Bureau recently initiated an impact evaluation series on these programs by evaluating A.I.D.’s efforts to improve economic policies and related programming and management issues in Grenada and Dominica. An evaluation team composed of Joseph Lieberson and Donald Bowles of CDIE and LeRoy Roach of Barbados spent August in the two countries.

The team looked at a number of A.I.D. policy reform programs that were implemented by the two geographic neighbors. By looking at these two countries, which have similar economies and population sizes, the team hoped to compare two quite different programming approaches to policy reform and to identify factors related to success.

In the early to middle 1980s, each country (for different reasons) experienced an economic slowdown, a large and widening government budget deficit, and a lack of private investment. During the policy reform period, economic growth accelerated, budget deficits declined sharply, and private sector activity picked up. By nearly all economic measures, the reforms supported a successful economic restructuring. The success in improving economic conditions is important, but the process of policy reform itself is also interesting. A few of the key institutional and programmatic issues are examined below.

Small, Incremental Policy Changes Versus a Major Policy Overhaul

In Dominica and Grenada, A.I.D. followed two quite different programming approaches to policy reform. In Dominica, the approach focused first on improving the management and institutional capability of the existing system and only later on incremental tax changes, new taxes, and other new policies. In contrast, the approach in Grenada was to introduce new and radically different policies first and then to shift efforts to improving tax administration and management. The successful phased and sequential approach used in Dominica proved to be better tactically. In contrast, with weak manpower and inadequate institutions, Grenada was unable to implement successfully a major overhaul of tax and personnel policies. A step-by-step, incremental approach makes much more sense.

Value-Added Taxes

A value-added tax (VAT) is not a sales tax but rather is a tax on the additional value added at each stage of processing or manufacture. VAT makes good economic sense by discouraging consumption and encouraging investment, without favoring one type of economic activity over another. In Grenada, the centerpiece of tax reform was the immediate elimination of all corporate and personal income taxes and the

introduction of a VAT system. VAT requires a sophisticated government tax department and businesses that maintain books and accounting records in order to identify sales and value added; however, in Grenada, as in many developing countries, tax administration is weak, and most businesses are small, operating on a cash basis without accounting records. The Government tax staff was unable to administer VAT, and the reform failed. The lesson is clear: developing countries should be cautious about introducing a complete VAT system and should do so only when tax administration and business record-keeping is adequate.

Privatization

Divestiture of government-owned enterprises was part of the reform efforts in each country. However, privatization moved slowly, because both governments believed that the public sector should control many economic enterprises and neither government seemed very interested in moving its enterprises into the private sector. A.I.D. should not assume that developing countries share the U.S. view regarding the efficiency of the private sector. Quite often these countries have a very different political-economic perspective.

The Process of Introducing New Taxes

The Dominican Government did an excellent job of setting new tax policies in a collaborative framework and following up with an active public relations campaign. When the Government was considering new policies or taxes, it held meetings with businessmen and farmers to discuss various options and approaches. Of course, the Government could not satisfy all special interests, but it made participants feel that their ideas were being considered; therefore, the process helped build a consensus.

In Grenada, top civil service and political leaders worked behind the scenes to develop new taxes. Their problem was lack of communication with the civil service staff that would implement the new taxes and lack of contact with private economic interests. A pattern developed of announcing a new tax only to find that it had technical and administrative flaws. Private-sector special interest groups that were harmed then would raise complaints and demand changes, and, after a few months, the Government would announce modifications to the original tax plan. Then there might be new complaints, and the pattern would repeat itself.

Consistent and well-understood tax policies are important if government employees are to do their jobs properly. The same holds true for private-sector taxpayers. As Dominica demonstrated, education of government tax staff and the mobilization of public support for policy reforms is as critical to success as the technical soundness of the programs.

Institutional Capability

In Dominica, institutional capabilities have greatly improved. The departments responsible for taxes are clear about their functions and understand their role. However, there is still a high staff turnover rate and a lack of training programs. Unless staff capabilities are continually maintained and upgraded, effectiveness and efficiency will start to decline. Sadly, in Dominica a clear decline already has started.

The Grenada policy reform program focused almost all attention on the development of a new set of taxes. It failed to recognize that the Government lacked effective capacity to administer the old taxes and was hard pressed to take on a set of unfamiliar tax procedures. Although there has been much criticism of the VAT system, a key problem was the Grenada Government's inability to implement a new tax system. The A.I.D. project failed to build and maintain adequate staff and management capacity to administer the new taxes.

Developing country governments suffer from weak manpower and limited institutional capabilities. An efficient institution probably is more critical than optimal policies; if there is a weak tax institution, new tax policies will not solve the problem.

Sustainable Institutions

In Dominica and Grenada, the new policies and procedures must be institutionalized if they are to be sustained. Institutions must be able to adapt and change the policies as future conditions evolve. There is a danger that reforms will not become fully institutionalized, because each country's tax department suffers from high staff turnover and a lack of in-service training programs.

Institutional and policy reforms take time, but in both Dominica and Grenada A.I.D. expected to achieve major tax and institutional reforms in just 4 years. Time allowed for the program was too short to build solid institutional capacity; additional assistance is necessary if the institutions are to reach long-run viability. In addition, with high staff turnover rates, there is a need for an ongoing training effort to maintain institutional capabilities. When building policy and institutional capacity, A.I.D. needs to think beyond the standard project life of 4 or 5 years to possibly 6 to 10 years. A.I.D. also should support the development of indigenous or regional training capabilities to provide the trained manpower necessary to support sustainable institutions.