CHAPTER 5

Money, but More Ideas, Too

The international community needs to get beyond projects and spur systemic change in whole sectors and countries.

GOOD ECONOMIC MANAGEMENT MATTERS MORE TO developing countries than foreign financial aid does. Policy and institutional gaps hold back economies that lag behind, not financing gaps. Aid money has a big impact only after countries have made substantial progress in reforming their policies and institutions. These messages should not, however, be twisted to mean that countries with weak institutions and policies (call them difficult, weak, or troubled environments) cannot be helped. They can. Many things can be done usefully.

But first we know from experience what is *unlikely* to work:

- *Large amounts of money.* Providing significant financing has not made much of a dent in poverty in countries with weak management.
- *Buying reform.* Conditional lending has not generated reform in countries with no domestic movement in this direction for reform.
- *Focusing on individual projects.* In difficult environments donors have often fallen back on a core program of projects, mostly in the social sectors. But the success of individual projects (always difficult to achieve) does not have much impact unless it spurs *systemic change.* And because money typically is fungible, the whole (distorted) public sector is being financed, not just the favored sector.

So, the international community needs to get beyond projects and spur systemic change in whole sectors and countries. Easier said than done. Almost nothing positive has happened in Myanmar (Burma) or Nigeria in the past three decades. There obviously is no panacea for the ills of such countries. Even so, there are examples of successful assistance that has improved the lives of people living in countries with weak governance and poor policies. In some cases this assistance has contributed to a larger transformation that made a major difference.

Here we present four case studies of effective aid under difficult conditions. Running through them are four themes:

In difficult environments, effective assistance is more about ideas than money or projects.

- *Find a champion.* Countries, governments, and communities are heterogeneous. While it is fair to characterize Burma overall as "poorly managed," there are likely to be reform-minded elements in the community and even in the government. If aid can find and support these reformers, it can have a big impact.
- *Have a long-term vision of systemic change.* Successful reformers have a vision of how things could be different in, say, 10 years—different both in outcomes (more kids going to school, graduating, getting jobs) and in process (community involvement in schools, broad public support for reform policies).
- *Support knowledge creation.* While reformers typically have a long-term vision, they often need to develop the details of reform through innovation and evaluation. Moreover, for reform to take root requires a demonstration that it works. Financing and evaluating innovations is a key role for development assistance.
- *Engage civil society.* In highly distorted environments the government is failing to provide supportive policies and effective services. That is why government-to-government financial transfers produce poor results. Effective aid in such an environment often involves supporting civil society to pressure the government to change or to take service provision directly into its own hands (or to do both).

The foregoing points deal with the characteristics of promising environments for change and the ways donors can enhance those characteristics. The lessons from successful assistance also provide guidance about donor behavior. Aid is more effective when:

- *Agencies focus on long-term reform.* Successful aid in difficult environments typically involves intensive staff input from donors and small disbursements of money. It also goes "beyond projects" to support systemic reforms. In difficult environments, effective assistance is more about ideas than money or projects.

- *Donors work as partners rather than competitors.* Studies of aid have long pointed to the proliferation of donors and the lack of coordination among them. Well-managed countries force coordination on donors, but in the weak environments donors often run amok. It is hard to explain this, except that different donors like to "plant their flags" on something (anything) tangible. In cases of successful assistance, there tends to be a strong partnership among donors with a focus on larger transformations, not on individual flags.

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Vietnam: Adjustment without Lending

It would be hard to imagine a tougher environment for development assistance than Vietnam in the mid-1980s. One of the world's poorest countries, Vietnam had to appeal for international food aid at several points in the decade. Despite Soviet aid (10 percent of GNP each year), there was virtually no progress in development (in poverty reduction or improved social indicators). Economic management was poor. The trade regime was closed. There was no scope in the economy for the private sector. And a large fiscal imbalance was financed by printing money, leading to hyperinflation.

Vietnam in 1985–86 is a good example of how a large amount of financial aid can have no impact in an environment of distorted institutions and policies. There was widespread dissatisfaction within society, government, and the ruling communist party with these poor results. At a landmark meeting in 1986 the party decided to change direction and initiated *doi moi* (renovation). One of the leading champions of reform was Vo Van Kiet, who emerged as deputy prime minister responsible for the economy. The impetus for change came not just from the fact that Vietnam was doing poorly, but from the success of nearby economies that were more open to foreign trade and investment. Although the economic team had a general sense of the direction for economic policy—toward more private initiative and greater openness—it did not have a detailed reform program (Ljunggren 1993).

The Soviet Union's aid dropped sharply in the late 1980s, leaving Vietnam with only limited assistance (less than 1 percent of GDP) primarily from the UNDP and Sweden (SIDA). While Vietnam was grappling with classic adjustment problems, it was receiving no financial

Vietnam's reform opened more space for civil society, and donor activities encouraged this as well.

support from the IMF or the World Bank because of its political estrangement from the major shareholders of these institutions. The two were, however, contributing some staff time to advise the government. Furthermore, UNDP and SIDA invited the Bank and the Fund to manage some of the technical assistance they financed. So, the IMF managed UNDP-financed technical assistance for the central bank and contributed some of its own staff time. In a similar arrangement the World Bank managed UNDP-financed assistance for the State Planning Committee (now the Ministry of Planning and Investment).

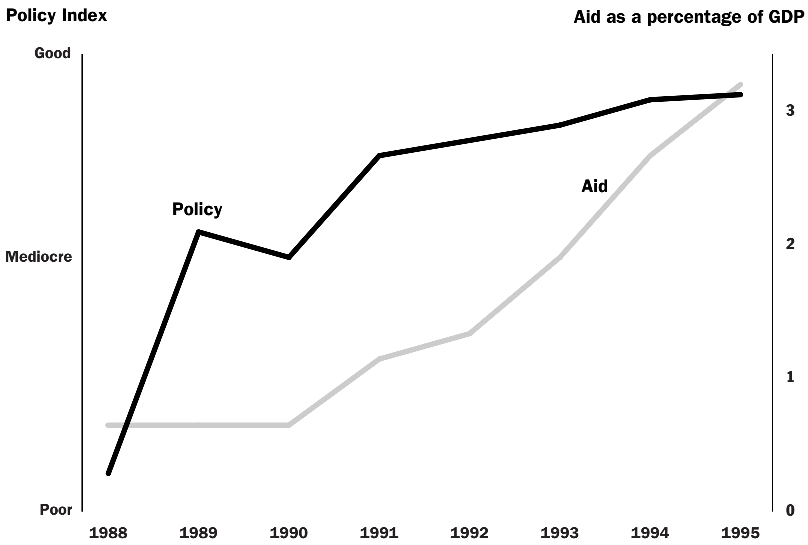
In the early stages of reform this partnership of agencies provided important inputs. In 1991 the UNDP and the World Bank organized a meeting in Kuala Lumpur at which Vo Van Kiet and his team met with economic ministers from Indonesia, the Republic of Korea, and Malaysia. Each country laid out some key policies that had worked for them, and the Vietnamese team asked detailed questions about stabilization, trade liberalization, foreign investment, and other economic policies. At a more technical level, the same group of donor agencies organized training courses, policy workshops, and study tours for staff from Vietnam's economic ministries.

All this was aimed at helping Vietnam learn about its neighbors' experiences and develop the knowledge it needed to manage its own economy successfully. The generation of knowledge was supported at a more micro level, too. UNDP, SIDA, and the World Bank teamed to help the government carry out the first representative household survey ever done in Vietnam—generating a wealth of information about household production, income and poverty, education, health, and child nutrition. This survey, conducted in 1992–93, revealed that 55 percent of the population lived below a widely used international poverty line (Dollar and others 1998).

Vietnam's reform opened more space for civil society, and donor activities encouraged this as well. Two examples: The Asia Foundation and the World Bank organized the first public meeting between the domestic private sector and leading officials to discuss economic policies and key distortions holding back private investment. And a group of donors organized rural workshops to discuss the poverty analysis that emerged from the household survey and how donors could support local initiatives aimed at poverty reduction.

It is impossible to measure the exact effect of these donor activities. But there undoubtedly has been dramatic improvement in economic policies in Vietnam and that has made people's lives better. Vietnam's

Figure 5.1 Vietnam: Aid and Policy



Source: Dollar and Easterl 1998.

Aid in Vietnam focused on policy advice and technical assistance during adjustment and reform. Large-scale finance arrived after a good policy framework was in place.

policy improved from truly terrible in the mid-1980s to merely poor by 1990 (figure 5.1). (The improvement captures the strengthening of property rights over agricultural land and the first stage of stabilization, going from 400 percent inflation to about 70 percent.) There was further steady policy improvement in the early 1990s as inflation was brought under control, trade liberalized, and the legal environment for the private sector clarified.

Note that during 1989–93 Vietnam was receiving a small amount of aid (about 1 percent of GDP). Large-scale financial aid did not arrive until 1994–95, by which time the institutional and policy environment was quite good for a low-income country.

Vietnam is a good example of systemic change. In the mid-1980s households were restricted in what they could do with land and labor. By the mid-1990s they had considerable freedom to work their land, start a household business, or look for wage labor. Innovations that had worked well locally were "scaled up" to the whole country. With the better policy environment came the need for complementary investments in roads, power, education, and other sectors.

In the wake of policy reform, growth accelerated. Of the 40 poorest countries in the world in 1986, Vietnam had by far the fastest growth in the next decade. And benefits have been widely shared. A 1998 study of the households first surveyed in 1992–93 revealed that average household income had risen 39 percent in real terms and that the poverty rate had been cut nearly in half—from 55 percent of households to about 30 percent.

In recent years many developing countries have experimented with decentralization of education.

What are the lessons for foreign aid? Donors helped a reformer develop policies for Vietnam and show that they could work. And the clear objectives of Vietnam's leaders helped in coordinating donors.

The focus during the critical 1989–92 period was clearly on ideas, not money. For reasons of international politics, major donors such as the World Bank could not provide money to Vietnam until 1993, so they had to do something different. Intensive staff time required little money and made a big contribution to the country's reform and development.

El Salvador, Pakistan, and Brazil: Education's Decentralization and Reform

GOVERNMENTS IN DEVELOPING COUNTRIES USUALLY PLAY A MAJOR role in the allocation and management of educational resources. Even when some authority is delegated to provinces or municipalities, individual school administrators and parents have a limited voice. This centralized approach has supported many achievements in education, but it has not always reached groups that have traditionally had low levels of education (the poor and girls, for instance). And overcentralization can stifle initiative among those critical in affecting school outcomes—teachers, principals, and parents.

In recent years many developing countries have experimented with decentralization of education in two ways: first, allowing more local autonomy and input into public schools, and second, creating more space for the nongovernmental sector. In some cases donors have helped finance and design these innovations. Most important, there has been support for government efforts to evaluate these innovations seriously, following pilot groups and comparing them with control groups not participating in the pilot. For reforms in El Salvador, Pakistan, and Brazil, there is now solid evidence that they work.

El Salvador's community-managed schools program—more popularly known by the acronym, EDUCO, or *Educacion con Participation de la*

Comunidad—is an innovative effort for both preprimary and primary education to decentralize education by strengthening the direct involvement and participation of parents and community groups. A prototype of today's EDUCO schools emerged in the 1980s when public schools could not be extended to rural areas because of the country's civil war. Some communities took the initiative to organize their own schools, administered and financially supported by an association of households. Although these early attempts were held back by the low rural income base, they demonstrated a strong inherent demand for education as well as a desire to participate in the governance of schools. In 1991 El Salvador's ministry of education, supported by such aid agencies as the World Bank, decided to use the prototype as the principal method of expanding education in rural areas through the EDUCO program.

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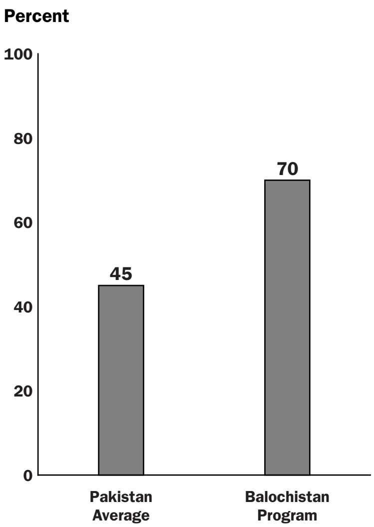
Today's EDUCO schools are managed autonomously by an elected community education association (*Association Comunal para la Education,* or ACE) drawn from the parents of the students. The ACEs take the central role of administration and management, and they are contracted by the ministry to deliver a given curriculum to an agreed number of students. The ACEs are then responsible for contracting and removing teachers' by closely monitoring their performance, and for equipping and maintaining the schools. The partnership between the ministry and the ACEs is expected to improve school administration and management by reflecting local needs.

The EDUCO program is a way to expand educational access quickly to remote rural areas. But has this come at the expense of quality? No. Community-managed schools are not low in quality. Student achievement on standardized mathematics and language tests is the same for EDUCO schools and traditional ones (after controlling for household background). In fact, EDUCO schools may be superior. They have significantly fewer school days missed by students as a result of teacher absence (Jimenez and Sawada 1998). Based on this success, the government is now planning to introduce community management into all traditional schools.

In Pakistan a long-standing problem has been the low participation of girls in schooling. In 1994–95 the provincial government of Balochistan began supporting nongovernmental schools, with an emphasis on increasing the enrollment of girls. Subsidies are paid to new nongovernmental schools, based on the number of girls enrolled. After three years, the schools are expected to be financially self-sufficient through fees and private support.

An innovative program to support the start-up of girls' schools in Balochistan led to an immediate leap in girls' enrollment.

Figure 5.2 Pakistan: School Enrollment of Five- to Eight-year-old Girls



Source: Kim, Alderman, and Orazem 1998.

In urban areas a new private school was opened in every poor neighborhood randomly selected for the program. Girls' enrollment increased by 25 percentage points, compared with their enrollment in control group neighborhoods that did not participate in the program (figure 5.2). Moreover, even though the program provided a direct subsidy only to the enrollment of girls, it had a positive spillover effect on boys' enrollment. This success was not affected by income or other socio-economic characteristics of the neighborhood, suggesting that expanding it to other poor areas of Pakistan would likely be successful.

In rural areas, girls' enrollment is particularly low. So, the program supported the creation of girls' schools, often headed by a female teacher, a factor believed to significantly increase parents interest in sending their daughters to school. Again, results show that the program significantly increased girls' enrollment compared with villages without girls' schools. As in the urban areas, there has been a spillover benefit in higher boys' enrollment rates.

In Brazil's State of São Paulo the new secretary of education, Rose Neubauer, initiated decentralization and improvements in efficiency. The traditional system involved using the same building for primary school in the morning and secondary school in the afternoon, with teachers commuting among different schools. There were also the usual problems of low teacher salaries and morale. The result: low enrollment rates, many repeaters and dropouts, and poor student achievement.

The reforms were threefold. First, the system was rationalized. Remapping allowed the concentration of primary students in primary schools and secondary students in secondary schools. Teachers were thus assigned to a single school, reducing commuting time and creating a more coherent faculty. This freed up resources to lengthen the school day and increase teacher salaries. The state education budget increased by 10 percent, but teacher salaries nearly doubled—possible because of the efficiency gains.

Second was decentralization. The state handed responsibility for primary education to municipalities that had the resources, capacity, and desire to assume it. There was a further decentralization of authority to school heads. Previously, these were political appointees not always possessing the requisite skills. In the new system these heads have to take a pedagogical exam and develop an action plan for the school.

The third prong of the reform was a commitment to assessment and research—that is, to a "results focus." Serious evaluation enabled the government to determine quickly that the reforms were working. Within a few years primary school enrollments in municipalities doubled from 600,000 to 1.2 million. Repetition rates dropped from more than 10 percent to less than 4 percent. Dropout rates plunged from 9 percent to 5 percent in primary schools and from 20 percent to 12 percent in secondary schools. The ultimate test of reform will be its effect on student achievement, and the testing system will allow careful evaluation over the next few years. Early results are quite promising, and teachers are happier as well. Neubauer is the first secretary of education in more than 20 years to go three years without a teachers strike!

In El Salvador, Pakistan, and Brazil decentralizing and involving civil society led to improvements in public services.

What can be learned from the El Salvador, Pakistan, and Brazil education reforms? In each case decentralizing and involving civil society led to improvements in public services—specifically, the broader availability of schooling to disadvantaged groups. A key issue in each case was to take a good idea and see if it worked, to create the potential for systemic change—that is, for the reform of the whole sector. In El Salvador and Brazil the government is moving in this direction. In Pakistan it remains to be seen if the innovation will be widely disseminated.

But for donors, these provide clear examples of how assistance can help support reformers—in the initial piloting, in serious impact evaluation, and in mainstreaming if there is demand to "scale up." Moreover, it is possible that these efforts to stimulate decentralization and community participation in education will have larger spillover benefits leading to more community involvement in other areas (roads, health), an important area for future study.

Cameroon: Health Financing and Delivery

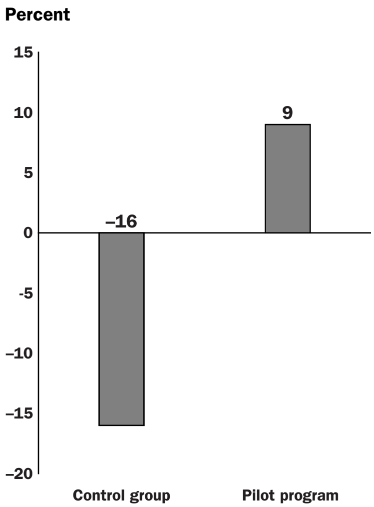
CAMEROON ENTERED THE 1980S WITH AN ANNUAL GROWTH RATE of 10 percent and exited them with an annual –10 percent growth. Partly the result of external shocks, the volatility was exacerbated by poor economic policy. The government adjusted slowly to a changed international environment and allowed its fiscal deficit to climb to an unsustainable 12 percent of GDP in 1988. The fiscal imbalance led the government to adopt structural adjustment measures, including a 19 percent reduction in total spending. As in other African countries faced with similar problems, expenditure cuts fell disproportionately on public investment and on nonsalary recurrent costs. The health budget declined by an even larger amount—46 percent in real terms between 1987 and 1990.

These cuts were one factor leading to low-quality health care and poor use of public health centers. The centers were left with a staff of four or five nurses but virtually no drugs or supplies. Not surprisingly, health personnel were demoralized. Only a few patients visited the health centers each day for curative care; and opportunities to deliver preventive health care decreased. Most people bypassed the health center and "self-treated" through traditional medicine or through purchasing drugs of dubious quality from private vendors, or through traveling to a distant town to buy expensive brand name drugs at a pharmacy.

Then, in 1989 the ministry of health decided to decentralize the administration and finance of rural health care delivery. The approach was similar to that being tried, with UNICEF support, in several other African countries. The ministry asked USAID to help design and make operational this reoriented approach to public health care in two provinces. Other donors and nongovernmental organizations (Germany's GTZ, UNICEF, CARE, Save the Children) were focusing on different aspects of primary health care. But the USAID-funded project was the pilot in which the government was experimenting with a comprehensive new approach to financing and delivering health services.

In a period of fiscal adjustment and expenditure cuts in Cameroon, health center use declined 16 percent. But in villages with an innovative program of user fees and revolving drug funds, use increased 9 percent.

Figure 5.3 Cameroon: Change in Health Center Use and Utilization, 1990–91



Source: Litvack and Bodart 1993.

Local health committees were formed to oversee the operation of health centers and tell villagers about the importance of preventive health measures. Health centers were supplied with curative drugs and supplies, which were replenished through consultation fees and drug sales. Preventive health measures (vaccinations, family planning, information on safe drinking water) were still provided free.

By making good-quality, generic drugs available at health centers at a reasonable price it was thought that use of the centers would rise. In fact, the use of health centers increased significantly for households in areas with the new policy, but declined in the control group areas (figure 5.3). It was also thought that access of the poor might decline because of the user fees. But this did not happen. The poor were not left out. Indeed, they seemed to be benefiting proportionately more than others. Why? Because they lacked any source of reliable quality drugs prior to this policy, so it had a greater impact on them (Litvack and Bodart 1993).

Although this very successful pilot came to a close in 1994, opportunities for scaling up have not yet been realized. Many of the innovative policies implemented in the two provinces required a waiver of normal procedures, and to replicate the pilot throughout the country would require broader changes in policy and legislation. For example, it had been envisioned that every health committee would become a private, not-for-profit association with ministry representation to ensure its independence. The needed legislation was drafted during the course of the USAID-funded project, but it has yet to be presented to the National Assembly. Other issues need to be resolved before scaling up. How to address poorer areas; how to design transparent, predictable intergovernmental transfers to create incentives for cost recovery; and how to improve the central procurement system for pharmaceuticals.

Africa's road sector provides good examples of how money—in a weak institutional and policy environment—can have little impact.

What is the result of this partnership between reformers in the health sector and donor agencies? At least two provinces in Cameroon are delivering better health care to their people. Furthermore, there is a stock of knowledge that community participation with proper government support can be a powerful way to improve rural service delivery, particularly for the poor. This could be an important input into a larger reform program in the sector and beyond. But as yet there has been no broader reform, and it is difficult for donors to do much until there is a larger domestic movement for change.

Africa's Road Maintenance Initiative

AFRICA'S ROAD SECTOR PROVIDES GOOD EXAMPLES OF HOW MONEY —in a weak institutional and policy environment—can have little impact. Almost a third of Africa's $150 billion in roads (much of it aid-financed) has been lost due to lack of maintenance. Entering the 1990s about half the region's paved roads and 70 percent of the unpaved roads were in fair to poor condition. The poor state of the transport network was a serious bottleneck that lessened the value of reforms or other public investments.

Institutional and policy weaknesses prevented governments from providing necessary road maintenance despite ample funding. In most countries there was an almost exclusive reliance on public road maintenance companies, which tended to have a large capital stock (equipment) at low levels of use. The public sector companies were also overstaffed. Thus funds were directed at equipment and employment, but often were not available for other critical inputs (parts, fuel). The underlying problem: operations were used to meet objectives (say, employment) other than maintaining roads. Moreover, general weaknesses in national budgeting often led to an uneven flow of operating funds, further hampering efficiency.

The core problem of road maintenance is not technical or financial—it is weak and unsuitable institutional arrangements.

In response to the mounting crisis, African transport ministers launched the Sub-Saharan Africa Transport Program in 1987, with the road maintenance initiative as a key component. The premise of the initiative is that the core problem of road maintenance is not technical or financial, but that the "real causes are weak and unsuitable institutional arrangements for managing and financing roads" (Heggie 1994, p. 2). The objective was to foster long-term systemic change, so that by 2000 countries would be well on their way to developing workable systems of maintenance.

What were the initiative's innovative features? First, it began by bringing policymakers in the transport sector and road users together for seminars. Their focus was on the consequences of neglecting maintenance and on the institutional and policy weaknesses that resulted in poor maintenance. Countries discovered that they had common problems, and that already there were important examples of successful reform.

Second, the initiative focused on institutional weaknesses. The fact that road maintenance units were often part of the general civil service with inflexible employment policies, made it difficult to recruit, motivate, retain, or dismiss staff. Establishing autonomy for road agencies can provide more flexibility in employment. Financial autonomy can be important as well. In general, road maintenance is a public good, and road maintenance companies cannot directly charge the beneficiaries of their work. But taxes for vehicles and fuel can be structured to closely approximate "prices" for road construction and maintenance.

In a country with strong budget management a government may not want to earmark funds from vehicle and fuel taxes for road maintenance. (Whatever the source of the revenue, it should ideally go to the use that has the highest social return.) But the best can be the enemy of the good. If the budget is not well managed and funds do not flow to road maintenance—even when the return to the activity is extremely high—then it is wise to search for the institutional arrangement that best fits this case and provides a good outcome.

Some countries in the road maintenance initiative have started "road funds" in which certain taxes and fees are earmarked for road maintenance. This arrangement has benefits:

- It can improve tax collection. Collection always relies to a certain extent on the willingness of people to pay. When road users are convinced that their taxes are not going to provide public services, avoidance is high. If users are convinced that taxes will finance services that benefit them, they are more willing to pay.
- It can provide a steady financing source for day-to-day operations. In the past expensive equipment and staff could sit idle while the government resolved the latest fiscal crisis. In the new institutional arrangement, there is a more stable flow of funds.
- It can improve spending. Road funds are overseen by road boards that include both government staff from the sector as well as road users—farmers, businessmen, bus and transport companies. This partnership between the government and the private sector has led not just to better collection of road taxes but to more efficient use of funds.

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Road boards have also provided input into other institutional changes, moving away from exclusive reliance on the public sector to carry out road maintenance. There now are commercially run equipment pools, and both road maintenance tasks and equipment maintenance are being contracted out (Carapetis and others 1991).

One key lesson is the importance of having a long-term game plan for reform. The initiative began in 1987, but it came to show major results only in 1992. It also demonstrates the importance of "knowledge creation," as we use the term in this report. In highly distorted environments people stop expecting services from the public sector and become skeptical about possibilities for reform. What is needed in this situation is not just good ideas, but demonstrations that they work. Now that there is tangible evidence of their value, good ideas from the African road maintenance initiative are spreading quickly from country to country. Also needed for the reform of public institutions is the participation of civil society.

Conclusion

POVERTY HAS ALWAYS BEEN WITH US. DEVELOPMENT ASSISTANCE IS only 50 years old. It is encouraging that there have been huge successes in the aid business—and it is not surprising that there have been some spectacular failures. Many failures involved investments based on strategic (not developmental) considerations influenced by the Cold War. But the failures of aid are not simply the result of pursuing nondevelopmental goals. Many of the world's poor live in countries with weak governance and poor policies, so that aid agencies work primarily in difficult environments. Early development thinking suggested that large dollops of capital into these countries would spur development. This is not the case. The examples here show that it is possible to assist development in countries with weak institutions and policies, but the focus needs to be on supporting reformers rather than disbursing money.

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A number of common themes run through these examples of effective assistance. There must be *champions of reform with long-term visions* at the local or national level. Aid must help them *create the knowledge that they need for effective development.* In the difficult environments, public services are poor or nonexistent. Since the government in these cases is functioning poorly, effective innovations typically involve *engaging civil society*—either to bring about governmental reform or to create substitute institutions.

While it is possible to make a difference in countries with weak institutions and weak policies, scaling up the assistance to have a large effect generally requires nationwide reform. In Vietnam national reform in the late 1980s set the stage for a dramatic reduction in poverty in the 1990s. But in Cameroon's health sector, a successful innovation in two provinces was not replicated nationally. Essentially, national economic management remained weak and did not take advantage of the successful innovation.

National transformations often catch observers by surprise. No one in the late 1980s could foresee the political and economic transformation that would come over the Soviet Union. Reforms in Vietnam, India in the early 1990s, Ethiopia or El Salvador after their civil wars—all would have been difficult to predict a few years earlier. What this means for donors is that it is worthwhile to look for opportunities to support pockets of reform in difficult cases, but that they will not have much leverage over whether local successes are scaled up to nationwide transformations.

Another common theme concerns donor behavior. In the successful examples of assistance donors were more cooperative than competitive, more focused on knowledge creation than on disbursing money. For donors to be more consistently effective requires changing the internal culture and incentives for line managers in donor agencies—which have often encouraged a focus on the volume of finance or on narrow measures of project "success," not on the contribution of assistance to systemic change. A recent study of aid dependency sponsored by SIDA analyzes the problem:

> "Both donor and recipient have incentive systems which reward reaching a high volume of resource transfer, measured in relation to a predefined ceiling.... In many administrations, both bilateral and multilateral, the emphasis is on disbursements and country allocations. Non-disbursed amounts will be noted by executive boards or parliamentary committees and may result in reduced allocations for the next fiscal year.
>
> "On the recipient side, officials of ministries of finance and planning are rewarded for the commitments they can attract from donors in bilateral negotiations or in donor meetings. Whether these commitments result in disbursements is often of less consequence. Results are measured against volume figures, with no regard for the quality of management. Quality is supposed to be measured by regular evaluations, but this dimension of aid transfers is very complex and can always be disputed. Besides, when the time has come to evaluate the actual outcome, most of those responsible for the project on both sides will have been transferred.
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> "These practices have a direct relationship to program quality as well as to the feeling of program ownership. In the present aid-dependent countries, new programs have been pushed through for decades by donors as well as by planning ministries under a time pressure that appears completely unwarranted in retrospect, considering the slow rate of subsequent implementation. In these often very large-scale programs quality has taken second place behind quantity, and the question of ownership has never arisen: it is the owner who pushes" (Edgren 1996, p. 11).

Donor agencies need to create internal mechanisms and incentives that foster selectivity and that focus large-scale finance on developing countries with good policies.

Effective donor agencies need to create internal mechanisms and incentives that foster selectivity and that focus large-scale finance on developing countries with good policies. In countries with poor policies, donors need to be more patient and accept that the best assistance may involve activities that do not result in much disbursement.

Donor agencies have learned from their successes and failures. In the 1990s all of the major agencies have instituted reforms aimed at strengthening the focus on results on the ground (box 5.1). Most agencies have also formulated country assistance strategies so that individual activities now

Box 5.1 Reforming Aid Agencies in the 1990s

A MAJOR CHALLENGE FOR AID AGENCIES IN RECENT years has been to adapt their institutional strategies, cultures, and capacities to work with participatory development. New patterns of staffing, recruitment, and personnel performance assessment, new project management approaches, and new criteria for judging success—all have emerged progressively. How far has this process gone, and what remains to be done?

For multilateral development banks, self-commissioned reports led to a fundamental reconsideration of the effectiveness of their traditional instruments—project loans. Beginning with the World Bank's Wapenhans Report, followed by similar reports of the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank, the conclusion was that loan quantity had been given primacy over loan quality. Securing loan approvals was a more powerful motivator for staff than working to ensure project success or larger development goals. Institutional factors critical for sustainable development impact had been neglected. Changes are now under way in each of the multilaterals, and sectorwide approaches are replacing individual projects. The World Bank has embodied its new objectives and organizational culture in a partnership strategy that reaches out to counterparts within and outside government.

Similar changes are evident in bilateral agencies, which have also often been disbursement-driven. But their main instrument has been grants not loans, with more flexibility in preparation and technical assistance. The emphasis has shifted from capital projects to capacity building and support for policy reform.

In all these changes the focus is on development results—on the human progress and the economic, political, and social advance generated by the efforts of the developing countries and their partners.

Source: Development Assistance Committee staff.

must fit into a larger game plan for policy reform and institutional change. In the same vein, the focus of evaluation has risen above the level of the project to overall country program reviews. These essentially ask: Have agencies used their resources to stimulate institutional and policy changes that have led to improved services and a better quality of life? This is not an easy question to answer. But it is the right one to ask. The Overseas Development Council recently sponsored reviews of the overall impact of aid in eight African countries, conducted jointly by scholars from the developing countries in question and from major donor countries—which seems to be a fruitful approach. In the same vein, the shareholders of the IMF recently turned to a group of outside scholars to assess the Fund's support to low-income reformers. And the World Bank has initiated country assistance reviews with input from a wide range of stakeholders.

Called for are independent reviews of development agencies with strong input from developing countries and focusing on two questions: Has the bulk of financing gone to sound institutional and policy environments? And have agencies contributed to policy reform and institutional change? Evaluating the right things should feed back into the management and incentives within agencies. With better management and evaluation, development agencies should become:

- *More selective*—putting more money into economies with sound management.
- *More knowledge-based*—using resources to support new approaches to service delivery, expanding knowledge about what works, and disseminating this information as a core business.
- *Better coordinated*—results-oriented agencies should worry less about planting their flags on particular projects and more about how communities, governments, and donors working together can improve services.
- *More self-critical*—agencies continuously should be asking themselves: Why do we do what we do? And what is the impact?

With a better understanding of development and aid effectiveness and with the end of Cold War strategic pressures, there is reason to be optimistic that the reform of aid agencies will succeed.