



# OED REACH

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## Lessons for LICUS

Based on seven OED Country Assistance Evaluations discussed by CODE.

- Countries may move in and out of the Low Income Country under Stress (LICUS) category depending on the severity of external shocks and the responses which they elicit. Sources of stress vary. Shifting country characteristics and circumstances, documented in OED Country Assistance Evaluations, mean that there is no standard remedy. However, evaluation findings point to a number of lessons.
- In order for the Bank to be a catalyst for change, it should make special efforts to understand country circumstances and shift from pressuring reluctant governments to adopt reform measures to helping them build consensus and coalitions for reform. Country authorities rarely consist of a homogeneous set of technocratic reformers. Typically, they represent an amalgamation of disparate interests with conflicting agendas.
- The Bank can make distinctive contributions to LICUS rehabilitation and development. Non-lending services can help build domestic capacity, and they should be used to enhance transparency in the use of public resources. Lending should be deliberate, and it should avoid complexity. Operational programs should be geared to building capacity and reflect the unique drivers of project success in each country. Project benefits delivered through the use of Project Implementation Units (PIUs) are often not sustainable. The Bank should build upon examples of successful partnerships.
- The Bank's engagement is more effective with an early start and continuity in budget and staffing.

### Background

OED has conducted seven Country Assistance Evaluations (CAEs) in countries that exhibit LICUS-like characteristics. Countries can move in and out of a LICUS-like state. Kyrgyzstan, for instance, was considered until late 1998 to be one of the most progressive FSU countries. Yet, by mid-2000, it was coping with fiscal and other crises and experienced slow and uncertain growth. In Yemen, poor water policy coupled with inadequate supplies are the primary sources of stress. Other countries have faced war, genocide, invasion, and famine.

### Six Lessons

***Understand the Client and Build Consensus for Reforms:*** Haiti has had thirteen governments since 1986. The relevance of Bank assistance was limited by the failure to give highest priority to the central role of political governance in economic development. Privatization and civil service reform were at the top of the Bank's agenda in the mid-

1990s, with support from other donors, but never gained wide support in Haiti. The Bank may have compromised its credibility in Haiti by pressing too hard, and without sufficient open debate, for highly political actions.

In PNG, most of the Bank's investment projects would have benefited from greater public dissemination of their objectives and benefits – including through church groups – in order to build consensus, particularly among traditionally competitive local clan/village groups.

In Kyrgyzstan over the 1990s it became clear that the client was an amalgamation of implementing agencies and stakeholders, including the parliament, the old nomenklatura, clan groups, the new mafias, new civil society organizations, and others with often conflicting agendas. The influence of the reformers was sometimes offset by other groups.

In Yemen, riots erupted in 1998 over the removal of subsidies on basic goods. In retrospect Bank staff should have encouraged greater

Government efforts to develop a national consensus with other parts of civil society.

***Maintain AAA, Particularly to Improve Transparency in the Use of Public Resources:***

The CAEs for Haiti, Kyrgyzstan, and PNG recommended Institutional /Governance Reviews, with particular attention to the political economy factors which make it difficult to change the status quo. A public expenditure review in Togo and initiation of work on anti-corruption in Cambodia were endorsed.

***Avoid Complexity, Build Capacity and Understand the Unique Drivers of Project Success in Each Country.***

In Yemen and Cambodia, needs were great in so many areas that the Bank often included too many objectives in projects, out-running the capacity of the borrower to implement them.

In Haiti, one relatively effective model was the use of NGOs or autonomous agencies to distribute services and funds. The CAE emphasized that this is a short-term solution only, to be used while longer term measures were being taken to strengthen the country's institutions. The Bank normally does not have a comparative advantage in using NGOs compared to other donors, who are more experienced in their use and have the necessary resources on the ground.

The TA components in Kyrgyzstan were generally under-managed, with objectives ill-defined and duplicated by other providers. TA for capacity building in poverty monitoring and analysis was, however, successful. Training persisted over five years, allowing time for perceptions to change and skills to develop, and resulted in client driven capacity building. The learning process was iterative as each succeeding survey built upon progressively stronger foundations. Staff were motivated by seeing their outputs used to good effect, e.g., by the Bank in the design of a Social Sector Adjustment Credit, and by the Government in improving targeting of benefits.

In PNG, the Gazelle Restoration project built basic infrastructure, while the use of small private local contractors generated employment and built local capacity. Reasons for project success included exemption from standard procurement and staff hiring norms; accountability and transparency in the sub-contracting process; the Bank's use of conditionality in SALII to ensure counterpart

funding; a close working relationship between project staff and the Bank; high-level political support; and an effective project manager.

In Cambodia, funds from a Technical Assistance Credit (TAC) were used flexibly to partially fund studies for civil service reform, military de-mobilization, forestry reform, and environmental planning.

***Enhance Coordination with Partners.*** In Haiti, poverty ESW led to improved donor coordination in education and health. In PNG, the Bank recently established meetings with the ADB and the Australian aid agency and has encouraged the government to better define each donor's comparative advantage.

***Ensure Sustainability of the Assistance by Strengthening Capacity Within Appropriate Agencies and Moving Away From the Enclave Approach .***

PIUs are used in all projects in Haiti. The evaluation questioned the sustainability of project benefits, emphasizing that PIUs are a short-term solution, and the greatest need is institution building.

In Yemen, the Bank undermined its efforts to improve governance by using PIUs that were largely autonomous from government or the relevant agency, and that disbanded when the project had been implemented.

Cambodian PIUs were often staffed by expatriate or highly paid local staff, creating resentment among government officials, with an adverse impact on institution building. In Cameroon, use of PIUs speeded up disbursements but did not build local capacity.

***Ensure Continuity in Budget and Staffing.***

Declining budgets often squeezed important ESW. If the Bank is to be a catalyst for change, the LICUS initiative should provide adequate budgets to continue analytical work, build capacity, and maintain dialogue even when lending is suspended because of poor governance.



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