

ABSTRACTS
OF
A.I.D. POLICY PAPERS
AND
POLICY DETERMINATIONS

DEC. 14, 1988

Agency for International Development
Bureau for Program and Policy Coordination
Office of Policy Development and Program Review

TABLE OF CONTENTS

	<u>Page</u>
<u>Economic Assistance Policy Framework and Core Concepts</u>	1
Approaches to the Policy Dialogue	1
Private Enterprise Development	1
Institutional Development	2
Implementing A.I.D. Privatization Objectives	3
<u>Sectoral Policies</u>	3
Food and Agricultural Development	3
Pricing, Subsidies and Related Policies in Food and Agriculture	4
Land Tenure	5
Support for Agricultural Extension	5
Assistance to Support Agricultural Export Development	6
Nutrition	7
Population Assistance	7
Voluntary Sterilization	8
Health Assistance	9
Guidance on AIDS	9
Domestic Water and Sanitation	10
Basic Education and Technical Training	10
Development Communications	11
Participant Training	12
Environment and Natural Resources	12
Humid Tropical Forests	13
Energy	13
Urban Development	13
Shelter	14
<u>Cross Sectoral Policies</u>	15
Economic Policies	15
Recurrent Costs	15
Financial Markets Development	16
Socio-Politico-Economic Issues	16
Human Rights	16
Women in Development	17

	<u>Page</u>
Special Cross-Sectoral Topics	18
Microenterprise Development	18
Private and Voluntary Organizations	18
Trade Development	19
Local Organizations in Development	20
Cooperative Development	20
Narcotics	21
Program Financing Arrangements with Independent Organizations	22
The Role of Resource Transfers in U.S. Economic Assistance	22
Exchange Rate Policy	23
Salary Supplements	24
<u>Types of Assistance Delivery Mechanisms</u>	24
PL 480 Food Aid	24
Programming PL 480 Local Currency Generations	24
Supplemental Guidance on Programming Local Currency	25
Using PL 480 Title II Food Aid for Emergency or Refugee Relief	25
Loan Terms Under PL 480 Title I	26
International Disaster Assistance	27
Mixed Credits	27
Co-Financing	28
Title XII	28
Population Assistance Through Non-Governmental Organizations	29
Program Sector Assistance Guidance	30
ESF Cash Transfer Assistance	30

Economic Assistance Policy Framework and Core Concepts

Approaches to the Policy Dialogue (Policy Paper)

"The soundness of domestic economic and social policies is in general the dominant long term influence on development ... economic assistance in support of ill-conceived policies would be a poor investment indeed." The policy provides a comprehensive framework for systematic A.I.D. interaction with other donor institutions and with developing countries' governments, addressed to support their economic policies when they are deemed effective, and to promote their improvement when they are deemed defective. This interaction forms the core of the "policy dialogue."

The policy clarifies important terms ("leverage; dialogue; self-help; conditionality"), sets limits to subsequent discussion, and outlines general characteristics of approaches to the policy dialogue (viz., "ex post," where good economic performance justifies financial support; and "ex ante," where the provision of aid is linked to a future policy change). The policy cites the key to successful policy dialogue as mutual respect and familiarity with (and sympathy for) the other party's objectives, possibilities, and constraints. The policy discusses the principal determinants of the effectiveness of the policy dialogue through bilateral economic assistance; pulls together the major considerations on the conduct of the dialogue in practice; deals with the issue of coordination between A.I.D. and other major participants to the dialogue to promote sound economic policies by the developing countries--and hence the effectiveness of the economic assistance to those countries. An annex discussing A.I.D. experience concludes the paper.

Private Enterprise Development (Policy Paper)

Democratic, free market societies most efficiently generate broad based, sustained economic growth and social progress. The overriding intent of A.I.D. private enterprise policy is to promote the establishment of a climate conducive to private sector activity in developing countries, not to finance individual business entities per se. The objective, to reach the ultimate goal of growth, is the establishment of viable, competitive markets and the expansion of private enterprise.

In addressing private enterprise development, the policy discusses government-imposed policy constraints to private enterprise development and provides guidance on policy dialogue, alleviating legal and regulatory constraints, assistance to private enterprises in developing countries, private provision of public services, assistance to parastatals, training and infrastructure.

A.I.D.'s private enterprise policy is intimately related to its overall approach to policy dialogue. This dialogue should deal with a developing country's development strategy and related policies affecting the operation and growth of free markets and private entrepreneurship. Dialogue leading to policy reforms which encourage private enterprise development may not be sufficient; A.I.D. should also engage in specific direct program actions to eliminate legal, regulatory and other constraints to private enterprise development, and to assist and promote private enterprises.

Building up and relying on the indigenous private sector, as opposed to continued reliance on parastatals, is preferred. The policy is concerned with exposing productive activities to market forces, in reducing and eliminating subsidies, and in ensuring that activities carried out to develop competitive markets and private entrepreneurship benefit A.I.D. target group as defined in the FAA. To help implement its policy, A.I.D. uses U.S. private sector firms, U.S. universities, PVOs and government agencies.

Institutional Development (Policy Paper)

A.I.D. policy is to help developing countries establish and strengthen public and private institutions to support mutually agreed, priority development objectives. Effective institutions: enhance the ability of a developing country to marshal its own human and financial resources; expand people's opportunities to undertake successful development by providing increased incentives for investment; provide individuals with opportunities to acquire the skills, resources, and services needed to increase productivity, income and well-being; and increase the likelihood that A.I.D. and host country resources will foster development that can be sustained after external assistance is withdrawn. Investment should stimulate a process of investment and reinvestment by beneficiaries themselves that continues after the termination of donor involvement.

The policy emphasizes that institutional development must: 1) be addressed in all projects and not be seen as a special activity of its own; 2) address weaknesses in complementary institutions, since institutional deficiencies elsewhere (e.g. agricultural extension) may well inhibit the effectiveness of particular institutional interventions (e.g. in agricultural research); 3) encourage flexible institutions that can adapt to changing needs; 4) provide for the active participation of clientele in the assessment of their needs and the design, implementation, and evaluation of programs; 5) aim to provide people increased ability to acquire essential resources and greater opportunity to apply them in rewarding ways.

Private sector options for institutional development must be given careful consideration; where there is a choice, support

to private institutions is preferred; activities explicitly or implicitly preempting private sector options should be avoided.

Implementing A.I.D. Privatization Objectives
(Policy Determination #14)

This policy recognizes the entrepreneur and the private sector as the most effective mechanisms for economic growth. A healthy independent private sector and secure individual economic freedoms also serve as a strong base to ensure that democratic institutions are brought into existence and remain free from centralized political control. Privatization of functions, activities, or organizations currently in the public sector should contribute to the achievement of these goals.

Determination of which activities are appropriate to the public and private sector must be made on the basis of economic efficiency, innovation, and incentive. A private enterprise, operating in a truly open and competitive environment, is usually more likely to meet goals of economic efficiency and growth.

This policy provides additional guidance on implementing A.I.D. privatization objectives, and information on sources of technical assistance for undertaking privatization activities. This policy and the Private Enterprise Development Policy, which discusses the privatization technique of divestiture, should be used as companion documents in developing privatization plans and activities.

Sectoral Policies

Food and Agricultural Development
(Policy Paper)

A.I.D.'s Agriculture, Rural Development and Nutrition program is designed to increase the incomes of the poor majority and to expand the availability and consumption of food while maintaining and enhancing the natural resource base. The objective of U.S. food and agricultural development assistance is to enable countries to become self-reliant in food, assure food security, and contribute to broadly-based economic growth. Sub-objectives are: increased food availability; and improved food consumption in rural and urban areas. A.I.D. assistance is to be concentrated in developing countries sharing these objectives and committed to appropriate policies.

Four ways to accomplish these objectives are: improve policies in developing countries to remove constraints to food and agricultural marketing and consumption; develop human resources and institutional capabilities, especially to

generate, adapt and apply improved science and technology for food and agricultural development, and conduct research on developing country food and agriculture problems; expand the role of developing countries' private sectors in agricultural and rural development, and the complementary role of the U.S. private sector; and integrate available assistance instruments in a way that contributes to the other three elements as well as meeting food security and nutritional needs.

A.I.D. encourages developing countries to promote participation in food and agricultural development by rural producers and workers, men and women, through: broadening access to production incentives and resources, including land and water, as well as education and training and other productive services; increasing productivity, employment and incomes; and expanding involvement in making policy and program decisions, including those affecting the development and operation of institutions that affect their productivity and well-being. Also emphasized is effectively increasing the productivity, incomes and market participation of small producers, and improving the employment opportunities of the landless and near-landless as a crucial requirement for improved food consumption in many countries.

Pricing, Subsidies, and Related Policies In Food and Agriculture
(Policy Paper)

A.I.D encourages developing countries to adopt or modify policies regarding pricing and distribution in markets directly connected with food and agriculture (markets for food itself, agricultural inputs and agricultural credit) so as to minimize governmental intervention and other inefficiencies in price formation and distribution systems. The policies at issue include price control, subsidization, public-sector production and distribution, and rationing.

For food, the policy supports food distribution programs that: are targeted to particular groups with special and substantial unmet nutritional needs; do not rely on suppression of producers' prices; do not regulate food prices or the bulk of the private food market but use market mechanisms so far as possible; and procure supplies at minimum economic cost. Efficient price-formation by a competitive private-sector trading system can mitigate adverse effects of inappropriate economic policies and natural causes, and the policy supports the creation and development of such systems.

For inputs, the policy encourages the freeing of output prices where they are controlled, thereby eliminating the need to compensate farmers, rather than to compound inefficiencies of interventions in output markets by adding other interventions in input markets. Temporary subsidy of the experimental use of inputs may be justified within projects that introduce new techniques to farmers.

For credit, interest rates should be set according to the market demand for funds, so that as much resources will be mobilized as the economy's borrowers are willing to pay for.

Land Tenure
(Policy Determination #13)

To promote broadly-based economic growth in developing countries, A.I.D. supports interventions in agricultural land tenure arrangements that will lead to intensification of existing land use or bring unutilized land into economically viable production. These interventions focus on the establishment of competitive land markets and on enhancing tenure security. Ancillary interventions in input supply, product marketing, technological change and agricultural credit may be required for an effective land tenure intervention.

Both functioning land markets and provision of more secure and stable land tenure must join to stimulate agricultural production that extends equal opportunity to own or use land to the majority of the rural population in developing countries. Support may be provided to policies and programs of developing countries which lead to a general, country-wide reliance on market forces in the valuation and distribution of land ownership and land use rights are supported. Programs broadening opportunity for access to agricultural land, promoting tenure security and stimulating productive uses of land by diminishing the barriers to market entry are also supported. Support will be given to policies and programs of developing countries which improve the land tenure security, provided they do not merely legitimize systems discriminating against small farmers and the landless. The policy supports, in selected cases and as resources may be available, assistance to developing countries--as part of a large program of policy dialogue to promote market-determined decisions for goods and services related to economic growth--to improve market-based land tenure systems so that producers are able to obtain land or adjust the amount of land utilized in their production processes.

A.I.D. Support for Agricultural Extension
(Policy Guidance Cable; 85 State 176426)

This policy recognizes that the agricultural technology development and transfer process is not complete until the farmer adopts and profits from the results of research. The payoff to support for traditional public sector approaches to extension in developing countries generally has been disappointing, including those based on the U.S. experience. The policy identifies alternative, complementary approaches that show some promise in promoting technology transfer in agriculture. These include increased use of private sector

channels for delivery of information and services, mass-media communications and selective intervention to improve the effectiveness of public sector extension.

The policy notes that in planning agricultural technology transfer activities, it is important to stress the need for compatibility between the choice of dissemination methods and particular country circumstances. The policy encourages support for innovative approaches to agricultural technology dissemination, including selective interventions to improve public extension systems, to ensure that research is extended effectively, that research is informed by feedback from farmers, and that the needs of all categories of farmers for improved technology and other inputs are met. Broad support for public extension systems based on traditional models without the incorporation of activities designed to improve their effectiveness is not encouraged. Public sector extension will continue to play a role, but greater use must be made of other, complementary mechanisms, so that the goal of raising production and income for small farmers throughout the world can be realized more rapidly and effectively.

Assistance to Support Agricultural Export Development (Policy Determination #15)

Food security is sought by developing countries and supported by A.I.D. policy. Long run food security is the ability of a country to assure a nutritionally adequate food supply to its population on a continuing basis, through both domestic production and importation of food on commercial terms paid with foreign exchange earnings. Comparative advantage governs the decision of which commodities to produce, whether for domestic consumption or for export.

A.I.D. agricultural development assistance helps developing countries achieve food self-reliance by supporting: the production of economically viable commodities; more efficient food distribution; expanded purchasing power; and international trade. Although expanded international agricultural trade is important to development, A.I.D. is alert to the potential for injury to U.S. agricultural exports.

A.I.D. policy is to avoid supporting production in developing countries of agricultural commodities for export when these would directly compete with exports of similar U.S. agricultural commodities to third countries and have a significant impact on U.S. exporters. Policy review of proposed projects considers: the export potential of the commodity in question; magnitude of production likely to result from the project; likely export markets; volume of U.S. exports of the commodity in question and similar commodities; and the U.S. share of the world or regional market that could reasonably be expected to be affected by increased exports of the commodity.

Nutrition
(Policy Paper)

Most development assistance either affects health or food consumption or relies on nutritional well-being to achieve objectives. The objective of nutrition policy is to maximize the nutritional impact of A.I.D.'s economic assistance. Highest priority is placed on alleviating undernutrition--inadequate food consumption and biological utilization of nutrients. The policy seeks to improve nutrition through sectoral programs in agriculture, food aid, health, family planning, and education as well as through direct nutrition programs. The policy is implemented through incorporating nutrition and food consumption as factors in decision making in sectoral strategies, programs and projects.

This can be effected by: a) identifying projects based on analysis (in CDSSs) of nutrition and food consumption problems; b) including nutrition as a factor in project design; c) targeting sector projects to individuals or households at-risk of developing nutrition problems; d) monitoring and evaluating nutrition impacts of projects that are likely to affect nutrition, food consumption or food production; e) complementing sectoral programs with nutrition projects to enhance nutrition impacts; f) utilizing the private sector, especially the food industry, in food programs whenever feasible; g) encouraging appropriate national agriculture, health, and nutrition policies to address nutrition and food consumption problems; and h) coordinating with developing country governments, PVOs, and other donors to achieve nutrition goals.

The policy seeks opportunities to integrate nutrition concerns throughout A.I.D.'s development assistance program by focusing on the factors that affect food consumption, nutritional needs, and the health of nutritionally at-risk groups.

Population Assistance
(Policy Paper)

A.I.D. population policy seeks to: enhance the freedom of individuals to choose voluntarily the number and spacing of their children; and encourage population growth consistent with the growth of economic resources and productivity. Policy premises are: individuals and couples should be able to decide freely family size; voluntary family planning programs are needed and wanted by citizens in developing countries; population assistance fits with U.S. strategic and humanitarian interests to help developing countries achieve economic development, and to support their citizens's efforts to attain a better life for themselves and their children; sustained economic development and the achievement of a decent life for all citizens in developing countries can only occur when population growth no longer outpaces economic progress; the

impact of development resources is maximized through coordination of policies and programs that broaden access to education and employment, especially for women, with the provision of modern family planning services; and the U.S. has unique strengths in this area of assistance.

Support for family planning services is based on two principles: voluntarism and informed choice. No programs are supported where any element of coercion to practice family planning or to accept any particular method of contraception exists. The policy supports the provision of family planning methods within the medical and cultural context of each country. The major focus is voluntary family planning service delivery. Also supported is dissemination of family planning information and education, including natural family planning; training for service providers; research on new contraceptive methods and improved delivery systems; and demographic and social science research and analysis to improve voluntary family planning programs and to assist developing countries develop and improve development policies and programs.

Legislation prohibits funding abortion-related activities and requires supported sterilization programs to be truly voluntary.

Voluntary Sterilization (Policy Determination #3)

The policy acknowledges each country is free to determine its own policies and practices on the provision of sterilization services. A.I.D. support for VS programs must comply with these guidelines: assistance will be contingent on satisfactory determination that surgical sterilization procedures, supported in whole or in part by A.I.D. funds, are performed only after the individual has voluntarily presented himself/herself and given his/her informed consent to the sterilization procedure; where VS services are made available, other means of family planning should also be readily available and accessible at a common location; no A.I.D. funds can be used to pay potential acceptors of sterilization to induce their acceptance of VS, and the fee or patient cost structure can not result in creation of a financial incentive for sterilization over other methods; medical personnel who operate on sterilization patients must be well-trained and qualified, and equipment must be the best available; VS programs--no matter how funded--will be conducted as an integral part of the total health care services of the recipient country and be performed with respect to the overall health and well-being of prospective acceptors, and opportunities for extending health care to participants in VS programs should be exploited to the fullest; and in monitoring the consistency of VS programs with local policy and practice, particular note should be taken of activities among ethnic, cultural religious or political minorities to ensure that the principles of informed consent are being observed and that under emphasis is not given to such minority groups.

Health Assistance
(Policy Paper)

The policy seeks to improve health status in developing countries reflected by increased life expectancy through addressing the health problems of children and their mothers. Program priorities are child survival and improved maternal and child health focused on reducing infant/child and maternal mortality and morbidity. Child health is to be approached primarily via selected child survival interventions--viz., immunizations, diarrheal disease control and specifically oral rehydration therapy (ORT), improved nutrition and adequate birth spacing, interventions which build the base for more comprehensive primary health care systems. Country specific conditions determine choices, but immunizations and diarrheal disease control/ORT are priorities. Gains made in improving child survival and health are to be sustained; and support for development of new, basic, effective technologies and improved systems for delivery of child survival services is endorsed.

Other interventions may be important also, both to child survival and other health problems; where critical and demonstrated to be appropriate, primary health care, water and sanitation projects, and vector-borne disease treatment and control may be considered. Health financing concerns are to be addressed in all projects, and in some countries may be the main A.I.D. activity.

Interventions must be cost-effective; such interventions are essentially preventive in nature, reducing potential future expenditures by averting diseases and conditions costly to treat. Curative care is generally not supported because of high costs except for conditions where prevention is difficult or even more costly than treatment (e.g., diarrheal disease, acute respiratory infections, malaria, and certain water-borne diseases). Major investments in physical infrastructure which increases recurrent cost burdens are not supported.

AIDS
(Policy Guidance)

The cornerstone of the Agency's policy on AIDS is cooperation, coordination, and support of the World Health Organization's General Program on AIDS. In addition to, and in coordination with, this multilateral response, the policy mandates development of bilateral programs to control the further spread of Human Immunosuppressive Virus (HIV), and to monitor the epidemic and its effect on development. Key program components of the policy are: prevention of HIV transmission in AID-supported health, population, and nutrition programs; surveillance to monitor the spread of HIV; public education aimed at increasing the level of AIDS knowledge, decreasing

fear and ignorance about AIDS, and promoting behavioral change; prevention of HIV transmission occurring via blood transfusion; condom procurement and distribution; and limited intervention-oriented and operations research aimed at improving program effectiveness and adapting programs to particular settings.

The policy is designed to be flexible and capable of response to changes in the course of the epidemic and advances in biomedical technology and knowledge. Most importantly, the policy is designed for rapid implementation of a program which will slow the further spread of AIDS.

Domestic Water and Sanitation (Policy Paper)

The policy recognizes safe, convenient drinking water supply and adequate sanitation is a fundamental component of broad-based economic growth strategies. Lowering mortality and morbidity from water and sanitation-related disease is a goal in itself; it can also lead to increased productivity and decreased absenteeism in the labor force and reduce the time and energy burden on the household, leading to more time for crop cultivation, child care, income-generating activities, and more regular school attendance. The availability of 20-40 liters of relatively safe water per person per day is seen as essential to achieve sustained health improvements in developing countries.

When key conditions--evidence of need and effective demand, institutional responsibility and capacity, and infrastructure--are met, the policy allows funding for water and sanitation programs to improve health in rural areas as well as market towns, secondary cities, squatter settlements, and urban centers. Programs will not be supported if operation and maintenance costs cannot be financed over the long-term by some combination of consumers, the local community, and the regional and central government. Where possible, consumers themselves should bear primary responsibility for covering all costs, since under these conditions systems are most likely to remain in operation over the long-term. Particular attention should be given to identifying and promoting opportunities for private sector involvement in construction, operation, and maintenance of water and sanitation systems and in the manufacture of related equipment.

Basic Education and Technical Training (Policy Paper)

The policy recognizes human resource development ("human capital") as vital to the growth of overall productivity and the efficient use of physical capital. The policy states an effective development strategy must assist countries: to

establish more efficient systems of education; to moderate their recurrent cost and administrative burdens; and to relate education more effectively to employment opportunities and trained manpower needs. The policy gives priority to increasing the efficiency and improving the distribution of basic education and skills training--i.e., schooling for children 6-14, vocational education and functional skills training for adolescents and self-employed adults, and technical skills training for wage employment.

The policy focuses first on problems of resource utilization and internal efficiency; over time this is expected to lead to improved access and more broadly based distribution of educational opportunities. Access is closely related to system efficiency and relevance, requiring measures to increase the numbers and percentages of children who, once enrolled, successfully complete at least the first cycle basic schooling.

To improve developing country education and training systems, the policy focuses on increasing: 1) the efficiency with which education resources are used; 2) the quantitative and qualitative outputs of education and training investments; and 3) the effectiveness of the education and training systems in supporting economic and social development objectives. To the maximum extent possible, the policy seeks to ensure that communities are directly involved in the establishment and maintenance of schools and that employers are directly involved in the implementation of technical training programs.

Development Communications (Policy Determination #10)

"Development communications", the application of existing communications technologies and media to problems of development, is a policy priority. "Communications development," the development of new or additional communications infrastructure and capacity, is comprehended by the policy but is not a priority for infrastructure investments. The policy seeks to assist developing nations in using communications technologies as tools in development programs and in making informed consumption and investment choices among the available technologies. The policy calls for A.I.D.'s use of these technologies to reduce costs, extend services and information and increase the effectiveness of projects it supports in all sectors.

The policy emphasizes the use of technical assistance and training in support of development communications. Most assistance should be designed as integral components of projects. The policy limits direct investments in communications infrastructure development and concentrates instead on technical assistance designed to insure that infrastructure projects are effectively implemented and

utilized. The policy limits support for multi-purpose communications capabilities to those systems which serve primarily development purposes consistent with CDSS priorities.

Development communications assistance will be primarily on a bilateral basis. Regional and international activities not involving support for infrastructure, such as regional training programs, information exchange systems, and selected research and development activities, may be supported by regional or central bureaus.

Participant Training (Policy Determination #8)

The policy encourages participant training of developing country scientists, technicians, administrators and managers in order to improve national training capacities, ensure the availability of key project staff and professional counterparts, and contribute to improving the technical, managerial and policy leadership of private and public sector development institutions. The appropriate balance among the three purposes must be determined in the CDSS. To be effective strategic investments, participant training programs must relate directly to the local processes of policy dialogue, technology transfer, and institutional development. The policy encourages the provision of participant training to meet specific needs as identified in CDSSs and other country analyses.

The policy does not encourage: general participant training not linked to specific development objectives identified in country strategy documents; training of teaching faculty in technical fields or disciplines not judged to be of developmental priority; or training which could otherwise be accomplished cost-effectively in local institutions.

All participant training programs should: provide opportunities for women; must be supported by thorough needs assessments and economic analysis; and should ensure to the degree feasible that trainees return to work in their home countries and in positions where their training is utilized effectively.

The policy anticipates that participant training will expand, particularly those types of training related to specific sectoral and institutional objectives.

Environment and Natural Resources (Policy Paper)

The policy promotes environmentally sound, long-term economic growth through assistance to developing countries to conserve and protect the environment and to manage exploited resources for sustainable yields. Three broad areas are addressed: sustainable production, maintaining natural ecosystems, and

meeting human needs by improving environmental quality. The policy supports forestry, soil conservation and watershed management, water and wastewater treatment systems, improved industrial and urban pollution control, coastal resources management, protection of tropical forests, and preservation of biological diversity.

Policy elements are: 1) assisting developing countries to formulate national policies and regulations leading to effective management of natural resources; discouraging environmentally harmful activities; encouraging environmentally beneficial price and market reform for key commodities and resources; and maximizing private, local resource management approaches; 2) assisting developing countries to identify and solve environmental and natural resource problems and to strengthen institutional and scientific capacities and local skills in resource management; 3) supporting activities to achieve sustained natural resource production and management while protecting or enhancing the environment; 4) ensuring that environmental review is fully integrated into all A.I.D.-supported development projects; 5) encouraging other national efforts and environmentally sound donor projects which have a positive environmental influence and discouraging projects which are environmentally unsound; and collaborating with bilateral and multilateral donors to evolve consistent policies and complementary programs; and 6) supporting basic and applied research, and the transfer of existing scientific and technological knowledge that promotes environmentally sound economic development.

Humid Tropical Forests (Policy Guidance)

In 1984, A.I.D. issued its first guidance document related to programs undertaken in humid tropical forest areas. Most aspects of the guidance cable were subsequently incorporated in Section 118 of the FAA which requires the President to place a high priority on conservation and sustainable management of tropical forests. It also requires that Country Development Strategy Statements include an analysis of the actions needed to conserve remaining natural forests. Further refinements were made in the A.I.D. Environment and Natural Resources policy paper issued in mid-1988 which contains guidance reflecting the priority which should be given to conserving undisturbed forests, finding sustainable ways to manage natural forests in tropical countries, and finding alternatives to the conversion of tropical forests.

Energy (Policy Paper)

Note: this Policy Paper is currently (December, 1988) under revision.

Urban Development
(Policy Paper)

The policy provides a framework for addressing urban issues in developing countries.

The policy recommends: 1) considering urban programs as part of a total development effort; 2) that resource allocation issues for urban areas be decided on a country-by-country basis, based on socio-economic criteria and understanding of urbanization and economic growth processes; 3) that program activities could include: a) support for country development policies leading to appropriate allocation of resources between urban and rural areas for national development objectives; b) promotion of the non-farm private sector through improving capital and labor markets to enhance private employment creation; c) shelter policies and programs for the urban poor (particularly sites, services and settlement upgrading programs) stressing affordability and cost recovery; d) education, health and community development programs to develop human resources and promote an overall urban development strategy; e) urban institutional development at national and local levels through programs to increase efficiency, to strengthen capacity, and modify policies to better respond to the needs of the urban poor and enhance the private sector contribution to development; f) the use only of Housing Guaranty and ESF funds as principal A.I.D. resources for urban projects; g) in some instances the use of local currency proceeds of DA, ESF, or PL-480 financed CIPs for high priority infrastructure components of urban development projects; and h) in disaster prone areas, promotion of national and metropolitan policies which encourage the establishment of safe settlements and buildings.

Shelter
(Policy Paper)

A.I.D.'s shelter objectives are to: assist in the formulation of rational housing policies; demonstrate the feasibility of shelter solutions poor families can afford; facilitate mobilization of additional local resources for financing shelter; develop sustainable shelter and urban service institutions; increase participation of the private sector, including the informal sector; encourage the use of energy and resource efficient housing designs, technologies and standards consistent with producing affordable shelter; increase the survival rate of people and buildings in disaster prone areas through adoption of appropriate zoning and building regulations.

Shelter programs to meet minimum shelter needs must acknowledge, facilitate, and support the informal sector which contributes the overwhelming portion of annual additions to

shelter stock in developing countries. Shelter requirements in developing countries far exceed resources available from A.I.D.; resources for shelter must be fully exploited as a catalyst to help developing countries mobilize their own resources for shelter and to use them more efficiently and equitably, and should be coordinated with other donors.

Shelter programs must benefit households below the median income level. Shelter programs can include: provision of access to secure land tenure for low-income groups; modification of inappropriate building standards which unnecessarily result in structures that poor families cannot afford; strengthening of weak institutional structures; modification of inappropriate interest rates; reduction of subsidies for housing; and emphasis on objectivity of shelter decisions by government.

The primary financing vehicle has been the Housing Guaranty (HG) program. HG projects are often supplemented by DA or ESF financed capital and technical assistance for housing policy formulation, institutional development and training, and the introduction of appropriate technologies in the form of innovative housing design, and support for the private sector as the main vehicle for the delivery of shelter.

Cross Sectoral Policies

Economic Policies

Recurrent Costs (Policy Paper)

Projects should be designed to assure recurrent cost components are consistent with economic feasibility: a) the economic analysis of projects should use prices for government expenditures and revenues that reflect the scarcity value of government resources; b) projects should be designed to maximize the revenues from service charges (and/or contributions in labor and kind) consistent with the capacity of the beneficiaries to pay; and c) where possible, government activities should be turned over to the market economy.

Where developing country policies are inappropriate, Missions should: a) persuade governments to make necessary reforms; b) enlist the support of the donor community for policy reform; and c) provide technical assistance and training to support reforms, including such areas as fiscal policies and tax administration.

If neither project design nor policies in a developing country are a problem Missions may consider funding a portion of recurrent costs through a variety of mechanisms for up to ten years, providing the country agrees to shoulder an increasing share of total costs over this period. Policy performance should be monitored closely to determine whether such

assistance should be continued. Direct funding of recurrent costs is only justifiable under fairly narrow conditions including: a) an acceptable policy framework or clear movement toward one; b) an assurance that recurrent cost support has higher development impact than new investments; c) an inability of the host country to undertake recurrent cost financing; d) a carefully phased plan exists for shifting the entire burden to the host government.

If the developing country refuses to take sufficient action on project design and/or policy reform, A.I.D. should seriously consider reducing the level of assistance to the affected sector or country.

Financial Markets Development (Policy Paper)

Effective financial markets are indispensable to the pursuit of sustained, broad-based economic growth. The policy promotes a system of financial markets that is integrated and relatively undistorted, one that relies heavily on competitive financial institutions, and on policies to facilitate competition. This system should be capable of effectively mobilizing private savings, allocating such savings to investments yielding maximum returns, and maximizing the participation of the general populace.

This policy describes A.I.D.'s policy on financial markets development and provides guidance on the development of A.I.D.'s programs and projects in financial markets. After addressing the functions and key characteristics of financial markets, the policy provides guidance on preparing a financial markets development strategy, policy dialogue, institutional strengthening and development, A.I.D. credit policy, financial training and standards development, and new financial instruments and institutions.

Socio-Politico-Economic Issues

Human Rights (Policy Determination #12)

A principal policy goal is increased observance of internationally recognized human rights by all countries. A.I.D. encourages development processes in which individual civil, political and economic rights are respected and enhanced. Legislative provisions in the FAA are the legal and practical foundations for A.I.D. human rights policy and programs. A.I.D. programs are to promote and advance human rights and avoid identification of the U.S. with governments which deny to their people internationally recognized human rights and fundamental freedoms in violation of international law.

In countries which have serious human rights problems, A.I.D. activities are restricted to those that directly benefit needy people. The needy people proviso does not strictly apply to Security Assistance where aid to these countries in extraordinary circumstances may be allowed. For PL-480 assistance, policy requires that in countries with human rights concerns, the commodities or the proceeds from their sale can only be used for specific projects or programs that directly benefit needy people.

On the positive side, the policy supports programs and activities which will promote and enhance adherence to civil and political rights. Section 116(e) of the FAA authorizes the use of not less than \$3 million each fiscal year for such activities. Policy and program guidelines for this initiative emphasize seven broad themes: a) encouraging development of democratic principles and institutions that promote human rights; b) encouraging adherence to the rule of law through a legal framework conducive to civil and political rights; c) encouraging free and democratic electoral systems; d) encouraging awareness of civil and political rights; e) encouraging the development of human rights organizations; f) encouraging the increased access of women and ethnic groups to the judicial system and to political processes; and g) research on and discussion of civil and political rights.

Women in Development (Policy Paper)

The policy provides a cross-sectoral policy framework and guidance to incorporate women in the total development process, and addresses social or equity issues, and economic and efficiency issues of integrating women into national economies and enhancing total development efforts.

The policy calls for the actual and potential roles of women to be taken into account through: a) program and project design reflecting the distinct roles and functions of women in project implementation; b) strategies for explicitly benefiting women and girls in all sectors; and c) sex-disaggregated data collection, gender-specific social-soundness analysis and economic analysis, monitoring and evaluation. Research in areas where adequate knowledge of gender-roles in relation to development planning is lacking is supported. Support for women's institutions and programs may be appropriate under special circumstances. The policy calls for increasing women's productivity via improving access to resources, such as education and training, labor-saving/time saving technologies, and efforts to alleviate bias against females in the labor force. Recognizing women's important child care and family welfare responsibilities, the policy supports human resource development programs in health care, family planning, potable water, nutrition and education which have particular implications for females, and supports the development of

institutions and transfer of technology which ensure improved technology and access to women and men. The policy supports reforms by developing countries to address the concerns of women in development which are consistent with international efforts undertaken by, e.g., the various UN agencies. The policy seeks to increase the knowledge and skills of A.I.D. staff in planning projects to effectively engage women in the development process and its benefits.

Special Cross-Sectoral Topics

Microenterprise Development (Policy Determination #17)

Microenterprise assistance is an important element of A.I.D.'s private enterprise development strategy. It is particularly important in advancing the goal of broad-based economic growth and, specifically, increasing incomes of the poor, providing opportunities for advancement of micro-entrepreneurs, and encouraging indigenous investment. The microenterprise subsector includes the whole spectrum of productive activities ranging from rural-based agribusinesses and handicraft production to urban-based trading, service, and manufacturing enterprises, many of which are labor-intensive.

This policy ensures that the resources provided under A.I.D.'s microenterprise development program benefit the many and diverse business efforts of the poor. The objective is to help people with limited or no access to capital achieve a level and quality of business activity that will permit increased access to formal financing and technical services and expand productive employment and incomes.

Microenterprise program guidelines provide information on the Congressional program earmark, funding information, program beneficiaries, policy dialogue, access to program resources, microenterprise credit activities (including loan size, interest rates and associated costs to microenterprises, and terms to IFIs), technical assistance and training, and institutional intermediaries.

Private and Voluntary Organizations (Policy Paper)

The policy identifies PVOs as development partners, both as intermediaries for A.I.D. programs and as independent development agencies. The broad policy objectives are: to increase the impact of PVO programs through increased program integration and focusing resources on field programs; discourage dependence on U.S.G. financing of PVO international development programs; reduce the administrative cost to both A.I.D. and PVOs of A.I.D.-funded programs by simplifying management and administrative procedures and create a focal point for PVO relationships; and insure that A.I.D. funds are

used in ways that reflect A.I.D.'s legislative mandate yet in a way that calls into full play such unique capabilities of voluntary agencies as their knowledge of the local situation and programming and managerial flexibility.

Guidelines for implementing the policy are: 1) increasing country program integration to maximize the effectiveness of development resources; 2) giving PVOs ample scope for independence in the actual design of project activities; 3) reserving the right to reject, approve or seek modifications in the final package which PVOs ask A.I.D. to approve; 4) viewing funding for PVO programs as complementary to other A.I.D. assistance; 5) applying a 20 percent non-USG funding requirement to determine if a U.S. PVO qualifies for grants under the PVO grant program; 6) linking the concepts of cost-sharing and program independence in grant relationships with PVOs; 7) emphasizing utilization of existing U.S. PVO capacity to undertake field programs; 8) taking into account the diversity of the PVO community; and 9) simplifying the administrative relationship with PVOs.

Trade Development (Policy Paper)

This policy encourages developing countries to utilize international trade as a key instrument in the process of achieving broad based, sustained economic growth and to place a greater reliance on complementary domestic competitive markets that support more open trade policies.

The policy focuses on building long term developed country and developing country private enterprise ties consistent with American trade liberalization objectives. Such ties lead to: development of stronger developing country economies based on efficient market-based resource allocation; development and strengthening of mutual economic interests; encouragement of entrepreneurship, economic institution building, and reliance on sources of private finance; and adoption of appropriate economic policies.

The policy directs A.I.D. policy dialogue, programs, and projects to: 1) establish a policy environment conducive to private enterprise and expanded participation in international trade; 2) encourage transfer of technology, skills and information to expand and diversify developing country agricultural and industrial bases for export production in areas with comparative advantages; 3) support trade and investment promotion efforts; 4) introduce or expand private sector competition in the export or import of essential or economically important commodities; 5) broaden the scope of export development projects to provide for greater U.S.-developing country two-way trade opportunities; and 6) encourage prudent investments in developing country export infrastructure.

Local Organizations in Development
(Policy Paper)

A.I.D. policy is to provide support to a wide range of public and private local organizations. Local organizations (e.g., primary level cooperatives, local governments, informal associations) are important in development: by generating and expanding revenue locally thereby retaining control of development and incidentally supplementing donor and national government investments; by implementing, channeling, or filtering the impact of centrally-planned interventions and providing feedback; by providing independent avenues for the expression of private development initiative; and by communicating to central authorities local needs, capacities, and requirements.

A.I.D. support helps to: ensure citizens are effectively and directly involved in development through local organizations linking them to national-level resources and processes; further democratic participation in assistance activities; and encourage the development of indigenous organizations that meet people's requirements for sustained economic and social progress.

Supporting pre-existing organizations is favored as: careful appraisal of rural society often reveals organizations performing precisely those tasks planners deem important; existing organizations persist because they meet real needs and serve their clientele well; even where existing local organizations seem deficient new ones may not escape the causes of the deficiencies of the existing ones.

The policy promotes A.I.D.: policy dialogue with host governments to define the relative roles and responsibilities of central authorities and local organizations; and assistance to a) improve the administrative and/or economic environment for local organizations, b) strengthen intermediary organizations such as cooperative banks, PVOs, or women's associations, and c) directly support local organizations.

Cooperative Development
(Policy Paper)

A.I.D. supports cooperative development because cooperatives embody principles of voluntarism, democratic choice and the economic effectiveness of private enterprise. Cooperatives can reach and benefit sectors not normally be served by other private sector institutions or direct government programs. Cooperative institutions provide an institutional framework for channeling other resources and programs. Member participation in cooperative operations and decisions promotes independence and self-reliance encouraging members to active roles in their own development. Cooperatives are attractive alternatives to public sector programs; a cooperative, because it is recipient

owned, has an automatic incentive to maximize benefits to the members.

Cooperatives can be useful and effective in capital formation, fostering private initiative and competition, and directing grass roots development efforts, at local regional and national levels. They can reach large numbers of rural and urban poor and attack problems of basic human needs. All of these are important aspects of A.I.D.'s development assistance strategy. For this reason, A.I.D. encourages the development and use of cooperatives where they can be effective instruments for project and program implementation.

A.I.D. encourages and supports U.S. cooperatives in their direct relationships with cooperatives in developing countries. A.I.D. considers cooperative development an integral concern of its bilateral programs. In general, all A.I.D. assistance to cooperatives should have the goal of achieving organizational self-reliance, self-financing and independent operational effectiveness to enhance cooperatives' development impact.

Narcotics
(Policy Determination)

A.I.D. policy, based on FAA Section 126, is to help reduce illicit narcotics cultivation by supporting projects providing economic alternatives to farmers in narcotics growing areas. Assistance must meet standard development criteria and be funded within country levels. Projects must also reflect increased enforcement and improved extension of supporting government administration and services. No single crop is likely to provide a viable economic alternative for traditional drug producers. Successful efforts will be paralleled by eradication programs, funded and monitored by other U.S.G. agencies, enforcing bans on cultivation of illegal crops. Coordination with the Country Team and Host Country Government in planning and implementation is important.

Under the policy A.I.D.: encourages U.N. specialized agencies, multilateral institutions and bilateral donors to channel economic assistance to narcotics producing areas to discourage illicit narcotics cultivation; works with appropriate U.S.G. agencies to collect, analyze, disseminate and utilize information pertaining to illicit narcotics control development activities; in affected Missions, conducts a yearly narcotics analysis in collaboration with State/INM; supports PVOs in developing alternative sources of income in narcotics producing areas; obtains assurances from host government(s) that narcotics production will not be permitted within the A.I.D. project area; recognizes enforcement of narcotics laws as a function of the host government and looks to State to monitor performance by developing countries in enforcement; monitors the progress of pilot income substitution programs supported by State/INM and others to assure that positive results are

considered in host government planning and programs; develops narcotics education projects.

Program Financing Arrangements With Independent Organizations
(Policy Determination #16)

A.I.D. assists independent organizations: to support or intensify their activities which contribute to the achievement of FAA objectives; or to develop the independent capacity, integrity, and quality of an entity whose function is for the economic or social betterment of developing countries.

Appropriate financial participation by assistance recipients: helps ensure active involvement in and commitment to program/project activities at about planned levels or better; limits A.I.D. financing to amounts which recipients cannot obtain on their own; helps mobilize additional financial resources; enhances the likelihood that recipients will continue project activities or otherwise work towards program goals after A.I.D. support ends; and increases the coverage and effectiveness of A.I.D.'s overall budget resources.

A.I.D. designs and negotiates assistance activities with independent organizations to seek the largest reasonable and possible financial participation from an assistance recipient, U.S. or foreign. 25 percent financial participation in project costs is to be used as a reference point in approaching the design and negotiation of an assistance activity. Where reasonable and possible, larger participation rates should be sought; where necessary, lower rates may be justified. In some instances, financial participation less than 25 percent may be both significant, in terms of the entity's financial resources, and appropriate, in terms of A.I.D.'s objectives in joining with the entity in the assistance activity.

The Role of Resource Transfers in U.S. Economic Assistance
(Policy Guidance Cable; 82 State 189715)

This guidance is concerned with assuring the effectiveness of projects that provide substantial amounts of resources to governments for commodities, physical capital, local costs for construction, credit or recurrent expenditures. A.I.D.'s scarce resources must have the maximum possible sustained development impact. The policy allows the consideration of resource transfers when: a) other sources of financing have first been explored, including possible co-financing arrangements with other donors and/or private sources; and b) such assistance is linked to changes or effective performance in the areas of institutional development, technology transfer or technology development, and/or economic policy. Country performance is to be closely monitored.

In such projects A.I.D. assistance must: a) be provided in a sound, market-oriented economic policy environment that reinforces its developmental impact or leads the country to undertake the reforms that produce such an environment; b) strengthen the country's private and public institutional capacity to solve its developmental problems; and c) result in widespread application of more productive technology that accelerates the growth of production, employment and incomes.

In general, policy dialogue should focus on economic policy, technical and institutional changes that: (a) support sustained, broadly-based economic growth; b) strengthen free markets and encourage private enterprise; c) stimulate savings, investment and employment; d) result in the development, adaptation and/or application of more productive technology; and e) encourage local community initiative.

Exchange Rate Policy

(Policy Guidance Cable; 87 State 186082)

The policy concerns the appropriate exchange rate at which A.I.D. or its agents: a) exchanges dollars for local currency under development assistance, economic support and operating expense funds; b) requires deposits of local currency by recipient countries under cash transfer agreements; c) generates local currency for the host government through the provision of commodities under Commodity Import Programs; and d) accounts for host country contributions to projects.

Standard A.I.D. grant and loan agreements provide that U.S. funds be exchanged for local currency at the highest rate per U.S. dollar which at the time of the transaction is not unlawful in the recipient country.

The policy clarifies, reaffirms, and extends A.I.D. exchange rate policy. It provides guidance governing the negotiation of exchange rate provisions in new project and non-project assistance agreements and the interpretation of provisions in existing agreements. The policy guidance reaffirms A.I.D.'s commitment to encourage host governments to move toward a unified exchange rate, i.e., a single free market-determined rate of foreign exchange. The policy guidance asserts A.I.D.'s determination to obtain in all its currency transactions the highest rate per U.S. dollar not unlawful that is available to anyone on any transaction in a recipient country, while providing operational definitions meant to preclude conflicts with sound economic policy. Separate statutory authority and guidance governs the sales of PL-480 commodities.

Guidance on Criteria for Payment of Salary Supplements To Host Government Employees

(Policy Guidance Cable; State 173326)

The guidance discourages salary supplements except in very special cases. The host government should finance any supplements to basic compensation for regular employees when they are assigned to A.I.D.-financed projects. Occasionally, A.I.D. and other development agencies temporarily supplement salaries of host government employees carrying out high priority projects in the form of premiums for relocation to remote project sites and incentives and bonuses to get highly trained technical specialists to devote full time expertise to projects. In those instances, all proposals must meet established criteria and be approved by the appropriate assistant administrator.

The guidance applies to all projects using A.I.D. dollars, U.S.-owned local currency and country-owned local currency jointly programmed. Also covered are organizations and projects funded by A.I.D. and managed by PVOs and other non-governmental organizations.

No policy-making official is permitted to receive A.I.D. payment of salary supplements. Per diem, international travel, honoraria or payments for project-related work outside normal working hours (which is legally permitted by the host country and is not in conflict with official duties) are not considered salary supplements.

Salary supplements are to be discussed with other donors to minimize the practice, avoid duplicate payment, moderate personnel competition, and set comparable compensation levels.

Types of Assistance Delivery Mechanisms

PL 480 Food AID

Programming Local Currency Generations
(Policy Determination #5)

Encouraging the developmental impact of PL 480 and other resources is a major A.I.D. objective. A.I.D. policy explicitly encourages participation in the programming of country-owned local currency generated by the sale of PL 480 commodities or by assistance provided under the FAA when such involvement promises to help in achieving developmental objectives. The policy encourages the integration of PL 480 food aid resources with non-food aid resources (primarily those from Development Assistance and Economic Support Fund) to help achieve specific program and policy objectives and to enhance the developmental impact of all external resources.

The policy sets forth guidelines for programming of local currency when this is indicated.

A.I.D. participation in programming local currency is not seen as an end in itself, but rather as a tool for moving toward the more important goal of an overall host country budget that represents a sound, development-oriented allocation of budgetary resources.

Supplemental Guidance on Programming Local Currency
(Policy Guidance Cable; 87 State 327454)

Experience with existing policy on "Programming Local Currency Generations," and a growing recognition of the importance of the proper programming of local currency associated with U.S. assistance required an amplification of policy contained in prior directives.

This supplemental guidance covers host country-owned local currency generated by, or otherwise made available for, joint programming as a result of development assistance, economic support fund, or PL 480 agreements. Local currency not covered in this guidance includes: a) U.S. owned local currency such as country payments to the U.S. pursuant to section 108 of PL 480; b) local currency already required to be jointly programmed for private enterprise promotion under PL 480 Section 106(b); and c) that purchased with A.I.D. appropriated dollars for disbursement under project assistance.

The supplemental guidance also covers, as a separate item, local currencies held in trust by A.I.D. These local currencies which are largely, but not exclusively, used to meet Mission operating expense requirements are of a sufficiently different nature from local currencies which accrue as a result of A.I.D.'s program activities as to warrant separate treatment. The guidance is not, except as noted, applicable to local currency trust funds.

Using PL 480 Title II Food Aid for Emergency or Refugee Relief
(Policy Determination #11)

A.I.D. policy is to provide quick and responsive emergency food aid relief to needy persons without regard to the political philosophy of the recipient government.

Several factors must be considered: a) whether the food is to be provided through private or multilateral organizations or on a government-to-government basis; b) the nature and urgency of the emergency; c) the nutritional needs of those affected; d) the amount and type of food assistance provided by other international donors; e) logistical requirements for delivery;

f) existence of reasonable assurance that the food will reach intended beneficiaries; g) determination that adequate storage facilities are available; and h) determination that food aid distribution won't result in substantial disincentive to or interference with domestic production or marketing.

Food aid requests should not be a substitute for action which a recipient government may need to take to assure adequate food supplies, and should not create a dependency on further food aid shipments. A.I.D. will endeavor not to penalize those in need of assistance for the politics of the government under which the people live.

For chronic food deficits, emergency food aid should be linked to (but not necessarily conditioned on) policy dialogue to correct the policies causing the problem. In situations involving refugees or displaced persons, emergency food aid may be provided to those in need under government-to-government programs and/or non-government programs, whichever is appropriate.

Loan Terms Under PL 480 Title I
(Policy Determination #9)

The policy establishes standard terms for Title I loans for the sale of agricultural commodities. Legislation provides for two sets of terms: dollar credit (DC); and convertible local currency credit (CLCC). CLCC terms should be used when the use of terms applicable to DC sales is not possible. Actual terms applied to each loan are derived by the consensus of the Development Coordination Committee Food Aid Subcommittee which administers the PL 480 Title I program.

The Policy provides that: 1) Title I terms should generally permit shipments of food to qualify as assistance under the Food Aid Convention and count against the U.S. pledge; 2) Title I terms should permit the assistance to qualify as official development assistance as defined by and reported to the OECD (to qualify, a loan agreement must contain a grant element of at least 25%); 3) Title I terms should be based upon the country's level of economic development and capacity to service external debt; 4) low income countries will continue to receive Title I assistance on highly concessional terms, and a somewhat harder set of terms is applied to the middle income countries; 5) Title I terms are standardized for each of the following categories: a) low income countries; b) lower-middle income countries; and c) higher-middle income countries; historical trends of terms for specific countries or other country specific factors may justify exceptions to the general policy above.

International Disaster Assistance
(Policy Paper)

Primary program objectives are to provide earliest possible alleviation of suffering from foreign disasters, with the principal beneficiaries being those in developing countries least able to survive without outside assistance. Particular attention is focused on strengthening a country's ability to cope with disaster through reliance on its own resources. There are four program goals: emergency relief and rehabilitation, country preparedness, early warning, and mitigation.

Key elements of U.S. foreign disaster assistance policy are: to render emergency relief, in coordination with the host government, other donors, international agencies, and voluntary organizations, to all victims of foreign disasters (such assistance can be provided to the people of any nation); to assist in rehabilitation when such rehabilitation is beyond the capacity of local resources; to encourage and participate in preparedness through the provision of technical assistance and international training programs; on a case-by-case basis, where there has been severe social and economic disruption, to provide a planning basis for longer-term reconstruction through U.S. economic development assistance programs; to increase the U.S. technical capacity to define vulnerable populations and to recommend disaster prevention measures; to encourage participation of other donors in preparedness and relief activities.

Mixed Credits
(Policy Determination #2)

A.I.D. policy is opposed in principle to mixed credits (i.e., combining concessional assistance resources with Export Import Bank direct or guaranteed credits for a single export transaction) for export financing. The use of A.I.D. development assistance resources (DA) for mixed credit financing is specifically precluded. The policy recognizes that other donors may actively use mixed credits to promote their own exports, putting U.S. exporters at a serious competitive disadvantage. Until an effective agreement is reached with other bilateral donors, use of existing Economic Support Fund resources for defensive purposes may be considered in individual selective cases where the project in our view is of high importance to a developing country's development.

The policy: continues support for the Trade Financing Facility in Egypt as an appropriate response to mixed credit competition by other donors; sets forth specific guidelines for participation in mixed credit financing for defensive purposes.

The policy provides for the review of international efforts to increase the transparency and reduce the use of mixed credits. Depending on the results of such reviews, A.I.D. policy on mixed credits may be reevaluated.

Co-Financing
(Policy Paper)

Co-financing is a formal arrangement associating A.I.D. funds with funds from different sources (private or public) external to the developing country in a development project. The policy favors the parallel form but not to the preclusion of joint financing arrangements.

Co-financing is endorsed as a useful method of development finance with potential to leverage and increase the effectiveness of A.I.D. resources. Co-financing: enhances policy dialogue prospects and adoption by the developing country of appropriate economic policies; increases involvement of the foreign private sector in development; and facilitates skill and technology transfer from the external private sector. A.I.D.'s in-country presences and technical assistance capability, both direct and through the employment of contractors, allows it to participate in co-financing with modest inputs. Skillful co-financing may enable A.I.D. to influence directly and indirectly the allocation of resources of other lenders. Co-financing should not become an end in itself but a mechanism to be utilized when it represents the most efficient application of A.I.D. resources. Fundamentally, A.I.D. will continue its role as a residual lender.

Respecting the role of market forces in resource allocation, A.I.D. loan co-financing arrangements to indigenous private sector firms will be at or near market rates of interest and will include foreign exchange risk coverage if appropriate.

Commercial bank participation should be in "at risk" form to enhancing the prospects for additionality over the medium to longer term. A.I.D. generally will not link its loans to those of other co-financing participants through the use of mandatory cross-default clauses. A.I.D. will limit its sponsorship and/or participation in co-financing arrangements to those structured in a manner consistent with policy on the initiation of mixed credits, and the U.S.G.'s obligations under both formal and informal trade agreements.

TITLE XII
(Policy Determination #4)

The PD clarifies and reaffirms the Agency's commitment to the Title XII legislation (FAA; December, 1975) which seeks to improve the participation of U.S. agricultural universities in

A.I.D.'s efforts to apply more effectively agricultural science to increasing world food production, and to encourage increased and longer-term support to science for solving food and nutrition problems of developing countries.

Title XII activities have the primary objective of developing the capacity of a developing country for research, education, and/or extension, the training of participants, the conduct of research, the building or strengthening of related institutional infrastructure, and/or the provision of university advisors to development projects in agriculture, aquaculture, nutrition, agro-forestry or closely related fields. Also included under Title XII are the Collaborative Research Support Programs and the university Strengthening Program, as well as support programs to the International Agricultural Research Centers.

The policy calls for A.I.D. to: continue Title XII-type activities in agriculture and food related areas; identify each project or sub-project falling under Title XII definitions as early as possible in project development; and mobilize the best and most appropriate Title XII resources for each project need, rapidly and effectively, either alone or together with non-Title XII resources, using all resources at the Agency's disposal.

Population Assistance Through NGOs
(Policy Guidance Memorandum)

U.S. assistance for family planning should take advantage of the voluntary private sector. The commitment of governments to increased availability of family planning services remains important in U.S. population assistance, but experience shows that programs operated by private sector institutions often are more cost-effective and more acceptable to family planning users. Preference is to be given to support for family planning through non-governmental channels where this is feasible and will be more effective than through the government. At the same time, the role of government in establishing and implementing policies which support the availability of a wide range of acceptable methods of family planning should be emphasized in policy dialogues with host countries.

Support may be provided directly to private voluntary sector initiatives. Missions should also encourage host governments, as part of the policy dialogue, to enlarge the role of the private sector in national programs. A.I.D. assistance is premised on voluntarism and informed choice. Choice may be enhanced by expanding the number of channels for service delivery.

Program Sector Assistance
(Policy Cable Guidance; 83 State 246934)

Projects are A.I.D.'s primary mode of providing assistance. Program sector assistance provides dollars which may not be directly linked to specific project expenditures, and may be funded by DA or ESF accounts. Sectoral programs will be approved only under exceptional circumstances, and when shown to lead to more effective achievement of U.S.G. objectives.

The goal of program sector assistance is to increase incomes or improve the delivery of services to the poor in developing countries; the objective is the alleviation of fundamental constraints (e.g., subsidies, inappropriate pricing policies, inappropriate government provision of goods and services, inadequate share of budget allocated to the sector) inhibiting the growth of sectoral output and productivity. All sectoral programs must be justified as a more efficient vehicle for achieving this objective than traditional projects. Any program sector assistance proposal must include comprehensive and detailed analysis of the problems and constraints facing the sector; a sector program should address the most binding constraints which are amenable to A.I.D. influence. Possible advantages of sectoral programs are: they can lead to a more integrated and comprehensive approach to sectoral development needs, particularly regarding policy; policy reform may be more easily achieved through them; and they are an ideal vehicle for providing recurrent cost assistance if appropriate.

(Note: this guidance is currently under review for possible updating.)

ESF Cash Transfer Assistance Policy
(Policy Cable Guidance; 87 State 325792)

Cash transfer assistance furnishes rapid-disbursing balance of payments assistance on a cash basis to a recipient in furtherance of U.S. national security, economic and developmental objectives. The policy reflects A.I.D.'s and the Congress' concern about the potential for inappropriate use of foreign exchange provided under cash transfers.

The policy implements the statutory requirement that all countries receiving cash transfer assistance over \$5 million establish a separate account(s) for the dollar assistance and a separate account(s) for any required deposits of local currency pursuant to the cash transfer agreement. Deposited local currency must be trackable and not commingled. The policy outlines varied procedures and requirements for tracking uses of dollars and associated accountability arrangements within the spectrum of foreign exchange regimes. The policy

establishes A.I.D.'s overall preference for use of cash transfer dollars for U.S. import financing, whether through direct disbursement, reimbursement or auction arrangements. Debt service is an alternative, as is a blending of import financing and debt service.

Under FAA statutes and the policy, ESF cash transfer assistance retains its unique and valuable characteristics in that various legislative requirements, such as cargo preference, competition in contracting, etc., do not apply, and funds may be obligated and expended as cash transfers notwithstanding other provisions of law which are inconsistent with the nature of cash transfer assistance.

The policy applies only to ESF cash transfers and not other forms of disbursement under ESF assistance (CIPs; projects).

(12/88)

Draft/assembly/editing: PPC/PDPR/SI:ELijewski:#0073A:11/10/88

CLEARANCE: DAAA/PPC/PDPR, C.S.Callison_____

AAA/PPC/PDPR, K.M.Blakeslee_____