

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON D C 20523



OFFICE OF  
THE ADMINISTRATOR

April 4, 1990

MEMORANDUM

TO: See Distribution  
FROM: Chief Economist, Gordon Rausser *G. Rausser*  
SUBJECT: Revised CDSS Guidance

On March 10, 1989, A.I.D. issued a cable (STATE 074952) to missions indicating that new guidance on preparing their forward-looking Country Development Strategy Statements (CDSSs) would be developed. As that cable suggested, A.I.D.'s existing CDSS guidance reflects our externally mandated, input-oriented, functional account budget structure -- a structure which we have publically stated is an impediment to sound development programming. What the cable promised was a fresh view that would (a) ask missions to look broadly across the societies in which they work to define the specific, and often unique, problems and opportunities facing developing countries and (b) guide missions through a process for developing assistance plans in response to those problems and opportunities within a framework of broad Agency goals -- rather than narrow budget categories.

The development of revised CDSS guidance pursuant to this cable has been undertaken at a time when other refinements in A.I.D.'s perspective on development were being formulated, and it has benefitted from those exercises. In particular, it has benefitted from discussions inside and beyond the Agency about foreign aid reform that led to, among other things, the articulation of clear goals for A.I.D.'s work in its FY 1991 CP and the presentation of our work in terms of those goals -- rather than in narrow functional account terms.

The revised CDSS guidance that has been developed in conjunction with other steps A.I.D. is taking to move toward coherent goals and sound country-based assistance planning, is provided as an attachment to this memo. In brief, the significant elements of this guidance include:

- o Its expectation that missions will look broadly across societies and economies, at the macroeconomic and sectoral level, before deciding where A.I.D.'s involvement could yield significant results.
  - In this context, it is worth noting at the outset that the new CDSS guidance returns to a conventional use of the word sector, using it to refer to the three basic sectors that make up an economy and through which its growth is conventionally measured, i.e., agriculture, industry (which includes manufacturing) and services (which includes a number of subsectors in which A.I.D. has significant experience -- health and education being among them.)
  - The new CDSS guidance calls upon missions to examine problems and opportunities in each of these sectors, as well as the ways in which progress, or the lack thereof, in one sector affects progress elsewhere in an economy.
- o Its expectation that missions will examine closely the political and institutional factors that foster or impede development, and define approaches for resolving problems in these arena rather than leaving them unchallenged.
- o Its expectation that environmental concerns will permeate both the CDSS analysis of problems and opportunities.
- o Its expectation that gender considerations will permeate the CDSS analyses and the assistance proposals that flow from those analyses.

While the new CDSS guidance includes such expectations, it does not proscribe a standard format for the preparation of every CDSS irrespective of the size and complexity of a given country program.

- o In the new guidance, the CDSS is described as a process -- which is more useful to the mission than it can ever be to Washington. The CDSS which is sent to Washington is described as a by-product of that process.
- o Missions are asked to complete the full process described in the guidance and write up the results of each step or part of the process. At the same time they are told to use their own good judgment in scaling the whole exercise to fit their mission and program size.

It is also important in this context to note that the CDSS process and performance based budgeting are complimentary. The CDSS process establishes a framework for assistance in a country--not its level. Implementation of the revised guidance will tend to sharpen a mission's understanding of the political and institutional, as well as policy impediments that stand in the way of improved economic performance.

At Deputy Administrator Mark Edelman's request I am asking for your comments on the enclosed draft of the new guidance. This guidance is but one element of the effort we will make to help missions adjust to a new approach for long-term planning for country programs that foster broad-based and sustainable economic growth, human capacity development and pluralism.

The draft CDSS guidance has already been reviewed by the Deputy Administrator and the Counselor on a preliminary basis. Your comments and suggestions are requested by April 27, 1990. Once comments are received and incorporated, the new guidance will be sent to the Administrator with the expectation that he will issue it on a trial basis on or about May 15, 1990.

While the new CDSS guidance is implemented on a trial basis -- which will give both the missions and Washington an opportunity to gain some experience, supplementary support is being initiated that will result in:

- o The development of training materials in support of new requirements, e.g., analyses of the political economy and institutional bottlenecks to reform.

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COUNTRY DEVELOPMENT STRATEGY STATEMENTS (CDSS)

INTRODUCTION

1. The Context for the CDSS

Through its program of economic assistance in developing nations, the U.S. seeks to foster:

- o Economic growth that is broad-based and sustainable, in both economic and environmental terms;
- o Human capacity development, with particular emphasis on health and education levels required to enable all citizens to contribute to and benefit from economic progress; and
- o Pluralism, including the promotion of democracy, freedom and competition in the political, economic and social institutions of a nation.

These broad goals serve as the framework for A.I.D.'s programs overseas. Through the CDSS process, missions are expected to define, for a particular country, what constitutes progress in each of these interrelated dimensions of development, for example, what rate of economic growth the country should be trying to achieve during the period covered by the CDSS. A.I.D.'s program for a particular country should be designed to help achieve these goals and fashioned in a way that fits the country's unique circumstances and characteristics.

The Country Development Strategy Statement (CDSS) since its debut in 1978, has served as the primary vehicle through which A.I.D. missions develop, and justify to A.I.D./Washington, their country programs for a three to five year period. While the final CDSS document is important and useful, the process missions undertake in developing the CDSS is of particular importance. This process provides missions with a wealth of information and valuable insights into opportunities and constraints that need to be addressed in the countries that we assist. This section of the Handbook sets forth the guidelines which each mission should follow in preparing its CDSS. In addition to this basic guidance, each year A.I.D./Washington will provide supplementary guidance in cable form that will apprise missions of changing Congressional concerns and of the level of resources likely to be available to each mission over the period in question.

2. Purpose of the CDSS

Preparation of the CDSS involves mission staff in the analytical process of structuring an economic assistance strategy for the country in which they work. The level of effort that should be undertaken by a mission must be consistent with the size of A.I.D.'s program and the mission's level of resources. Small missions are encouraged to look at the overall economic picture, but may choose to do so in a less detailed manner than might be expected from larger missions. This analytical process, and the CDSS document which results, should take full account of the broad set of opportunities which exists.

The elements of the CDSS described below are intended to structure a systematic appraisal of a country's development opportunities, realizing that these prospects will differ, often substantially, from country to country. Accordingly, the content of the CDSS document will differ across countries, but should in each case set forth a summary analysis of the major factors that constrain or influence the possibilities for better economic performance and living conditions. The CDSS should also outline the steps which A.I.D., as one of several donors, intends to take over a three-to-five period to ensure improved economic performance on a broad-based and sustainable basis, in conformance with other U.S. policy objectives.

There are several other general considerations which should guide missions in the preparation of the CDSS. First, the analysis should reflect an understanding of the interrelationships between economic policy, the political and institutional environment, and environmental practices and their implications for the sustainability of economic growth. Without sustained economic growth, the living conditions of a country's people cannot improve over the medium and long-term. Growth cannot be sustained over the long-term unless it is broad-based, consistent with a country's domestic political and institutional circumstances, provides for human capital development, and relies upon sound environmental practices.

Second, to be effective, the U.S. strategy of cooperation should be carefully crafted to fit the realities of each country in which A.I.D. is active. General U.S. foreign policy concerns can be factored into local development strategies, as can global development needs and concerns. These should not, however, unduly influence the strategy which a mission proposes.

Third, notwithstanding a history of functional account restrictions within the Agency's basic legislation, each CDSS should reflect the real constraints and opportunities of the country in question and consider the full range of options for helping that country achieve sustained and broad-based growth. Options which heretofore might have been discarded because they did not fit neatly into A.I.D.'s traditional portfolio and functional account categories should not be ignored provided that their potential pay-off is high.

The purpose of the CDSS, therefore, is to summarize the findings of a broad-gauged analysis of a country's development problems and opportunities, both in general and for each promising productive sector, and to propose a medium-term A.I.D. program best suited to foster general and per capita economic growth, to widen public participation in the growth process, to guard the environment and thus, to progressively enhance the living standards of its people and their ability to participate broadly in the political and economic future of their country.

### 3. Components of the CDSS

The outline for a CDSS document follows a logical sequence. It is intended to parallel the research and analytical steps a mission takes in arriving at its development assistance strategy. This CDSS guidance is organized in five parts. Part I presents an overview of the development performance of the national economy over the past 10-15 years. This part contains a summary of the macroeconomic analysis and of the "scorecard" on development performance, and a summary of sector and key subsector assessments. It concludes with a general summary analysis of the host country's past development strategy and performance in implementing that strategy.

Part II calls for an analysis of the country's key economic opportunities, and the major constraints to progress in achieving broad-based economic growth.

Part III of the CDSS takes a hard look at the political and institutional realities of the host country and how they pertain to and constrain economic performance. The purpose of this review is to assess what actions need to be taken to support and sustain economic growth. This section should present political, legal and institutional initiatives and strategies that would support and sustain growth-promoting economic policy reforms and improve the country's implementation of reform policies.

Part IV of the CDSS reviews in detail the host country's development strategy, highlighting those areas and sector's which were assessed in Part II above. This part also reviews donor coordination and ODA levels including innovative aid coordination and delivery mechanisms.

Finally, Part V should identify the actions that will best take advantage of the country's comparative advantages and achieve broad-based and sustainable growth as well as other development objectives established by the country. Within that framework, Part V should recommend an A.I.D. strategy regarding the provision of program and project assistance. It should propose a strategy for a political, institutional and economic policy dialogue with the host government, together with program and project objectives and achievement indicators. These could include society-wide measures of broad-based economic growth and improved living conditions, as well as measures of the performance programs and projects funded by A.I.D.

## PART I. COUNTRY DEVELOPMENT PERFORMANCE AND STRATEGY

In broad terms, the purpose of Part I is to provide an economic, social and institutional overview of the economy, its prospects, problems, constraints, policy orientation and recent trends in performance. The emphasis should be descriptive and analytical, as distinct from prescriptive, and should emphasize the analytical thinking from which the proposed mission programming and policy dialogue strategy presented in Part V is derived. To this end, Part I is divided into six subsections, summarized below:

### 1. Basic Characteristics of the Economy

This introductory section should briefly describe the basic characteristics of the country and its economy: its geography and major economic resources; the structure of production and trade; the size, location and education of its population and labor force (disaggregated by gender); employment and income distribution; public and private sector roles in the economy; external debt and access to foreign capital; the size and structure of exports and imports; energy consumption and dependence on alternative forms of energy; major environmental problems; and the country's vulnerability to external factors beyond its control, such as weather and changes in world market prices.

### 2. Record of Development Performance: The Scorecard

[Note: This section of the CDSS guidance, as well as Part V (3): Goals and Process Indicators, will be reexamined at a later drafting stage to ensure that they are consistent with the outcome of A.I.D.'s effort in response to Section 593 of the Foreign Assistance Act of 1990, to define a process for the development of country-by-country indicators of poverty.]

The purpose of this section is to provide a "scorecard" on overall economic performance as well as individual and family living standards. This summary assessment of performance must cover the traditional macro and sectoral dimensions of performance. It must also cover the full range of social and economic indicators that are used to assess development status at the level of individuals and families. Where relevant and important, it should highlight differences in status and performance that reflect gender, income groups, age structure, the rural/urban breakdown and the like.

The information presented in this section should permit an assessment of the extent to which the government defends civil and economic freedoms and has achieved broad-based growth, minimal poverty levels, high employment levels, high levels of private sector economic activity, high levels of access to housing, potable water, electricity, adequate nutrition, environmental sustainability, human resource development, and the development of democratic political and economic institutions (pluralism). The presentation should be brief and should focus on the key trends in these areas over the last five to 10 years, not on year-to-year fluctuations caused by transitory phenomena.

The presentation of economic trends in this section should focus on the country's economic policy orientation (see Annex 2) and on key indicators of economic well-being, such as the growth of real gross domestic product (GDP) compared with the population growth rate, the growth in productive employment compared with the growth of the labor force, (disaggregated by gender), and the extent to which the country has been able to maintain a foreign exchange position compatible with steady growth. The discussion should include assessments of the relative sizes and estimated growth rates of the private sector and of the formal and informal sectors of the economy. Analysis of causal factors and contributory economic trends, however, should be left to later sections. Weaknesses and strengths in the quality and coverage of statistical data should be highlighted when missions believe this is important.

Indicators of environmental conditions and protection may include current trends in deforestation, decertification, soil erosion, water and air pollution, the misuse of pesticides, loss of biodiversity, and damage to important ecosystems both on land and in lakes and nearby seas to the extent that there are measurable. These trends should be linked to how they relate to the sustainability of recorded economic growth and employment levels. This section should also assess whether renewable energy sources are being effectively utilized and renewed and whether the country is contributing to or suffering from global environmental problems. (see Box 1)

With respect to social indicators, this section should review statistical measures and describe government policy with respect to health, nutrition, education, family planning, and poverty alleviation and how these policies are implemented in practice. It should describe the roles of the public and private sectors as service providers and describe access levels, by population sub-group and gender, to health services (including sanitation services and potable water), education, and other services, in general and using appropriate indicators.

The status of the poor, A.I.D.'s primary intended beneficiary, should be delineated in this section. Significant rural to urban migration, the percentage of the population living in poverty, etc., should be highlighted. Where appropriate, missions should carry out beneficiary group analyses as part of their sector assessments (see Annex 3) to obtain these kinds of information.

With respect to pluralism and democratic institutions, this section should discuss the extent and manner of men's and women's participation in private, political, and social institutions and the extent of voter vs. elite or special interest control over public institutions and policies. For instance, where public regulatory taxation, resource allocation, wage and price and licensing policies are biased against private businesses, especially small farmers and entrepreneurs, this section should discuss the propensity of the government to promote or impede broad-based private sector activities. The ability of ordinary citizens to obtain action in response to articulated needs and to effectively work through groups and coalitions should also be described. Past trends in and future prospects for change in key economic and social institutions should also be discussed.

## Box 1. Environmental Issues

As part of the CDSS preparation process, missions are encouraged to survey the environmental situation in a country to define areas in need of attention. Approaches for dealing with environmental problems uncovered by this process should then be built into a mission's assistance strategy, as well as into the CDSS in the appropriate places.

The outline provided below identifies problems that may arise in surveying a country's environmental situation. The elements appearing in the outline are not wholly inclusive, but rather suggestive of the types of problems that may be identified. The level of effort devoted to identifying environmental problems and approaches to their solution should be consistent with the size and scope of AID's program and budget for a country.

### Elements of a Survey of Environmental Problems

#### Natural Resources

To what extent are major resource systems being exploited in a non-sustainable manner?

To what extent do country domestic policies regarding natural resource-based industries (agriculture, forestry, fisheries, etc.) and associated public policies (e.g., tax policy, price policies, etc.) provide incentives for environmental degradation?

Are regulations and administrative procedures concerning resource management and environmental exploitation adequate? (e.g., need for environmental impact analysis, etc.)

#### Water Resources

Is water supply adequate to satisfy current/future demands for agriculture, industry, and residential use? If not, what sector(s) are likely to face availability constraints? Do existing pricing policies encourage conservation? Are revenues owed being collected?

Do water standards exist and are they enforced? What percent of the population is provided with safe drinking water? To what extent are existing health problems in the population related to unsafe drinking water?

Are irrigation systems adequately supplied with water? If not, are availability constraints year-round or seasonal? What price is charged for irrigation water? Does the pricing system encourage conservation? Is drainage adequate? Are rivers being contaminated?

Is water wasted through overuse or leakage/illegal usage? What percentage of consumers receive treated water? Are water quality standards enforced? Do water treatment plants exist, and if so, are they fully operational?

Identify significant pollution existing in rivers, standing bodies of water, and their sources. Is institutional capacity adequate to deal with the technical and policy issues involved with water pollution?

#### Pollution

**Agricultural.** Is there evidence of siltation of water-courses, especially resulting from erosion? Is there evidence of biological impacts within water sources, especially upon fish habitat and other economically important biota? Is there evidence of pollution resulting from fertilizer, pesticides and other chemical use? Do policies to deal with these pollution sources exist, and if so, are they appropriate, adequately disseminated to farmers, and understood? Do producer practices follow policy? Are pesticides handled safely at every stage of their use? Is there adequate institutional capacity (human and physical resources) to address problems as they arise?

**Liquid, industrial, toxic.** Identify the extent, types and sources of significant water pollution problems. What percent of industries and the population have access to adequate sewerage disposal? Is existing treatment adequate? What percent of sewerage collected remains untreated? What are the epidemiographic and economic effects of dumping untreated sewerage on human health, on fishing and marine life, on tourism, etc.?

**Solid waste.** Is toxic waste collection and disposal separate from residential/industrial disposal? What percent of residential/industrial waste is collected and treated? Where is garbage dumped and what is the extent of resulting pollution? Are landfills managed in an environmentally sound manner? What is the feasibility of developing recycling programs and the potential impact on the volume of garbage to be disposed of?

**Regulations and Institutions.** Do waste treatment standards/regulations exist and are they enforced? Does adequate institutional capacity exist to deal with pollution problems as they arise?

### **Land Use**

Do zoning and land use regulations exist and are they enforced? Do they make appropriate and environmentally sound use of land resources?

Is there evidence of declining soil productivity and serious erosion? If so, what factors are contributing to these outcomes?

Do land pricing policies reflect the market value of land or are they underpricing land and thus contributing to encroachment on agriculturally productive land (e.g., urban sprawl)? Do pricing policies reflect environmental externalities?

Do construction standards provide for incremental improvements, sites and services and least cost solutions? Do building standards protect humans from hazardous building materials and practices? Do existing standards, such as low density requirements, encourage wasting of scarce urban land?

### **Demographics**

What are the implications of continuing population growth for national resource needs, including water, energy, fuelwood, and food? What are the implications of continuing urban population growth for urban resource needs, including water, sewerage, energy, transport, and food? What portion of urban growth is attributable to migration? To natural growth? What are the trends and prospects for reducing population growth, rural and urban?

### **Biodiversity**

Are forestry and wildlife habitat and living aquatic resources being conserved to preserve their biodiversity? Are soils managed so that productivity is maintained or enhanced and soil erosion minimized?

Are marine and coastal zone environments being managed for sustained productivity?

Are crop, domestic animal and fishery genetic resources being identified, collected, maintained, and utilized for present and future benefit?

### **Flooding**

How common is major flooding? How significant are the effects on agricultural production and urban living areas? In the latter, are there adequate storm drainage systems? What are the annual losses due to flooding attributable to inadequate drainage systems and/or improper land use? Is flooding contributing to water contamination in urban areas or the contamination of food production in rural areas?

### 3. Summary of Macroeconomic Analysis

This section should summarize the main conclusions the mission has drawn concerning the country's economic performance. As such, it should draw principally from the detailed macroeconomic analysis, which should be attached. (Specific guidance on the scope and content of this analysis is contained in Annex 1 (attached)). It should emphasize the causal factors underlying the key features and trends summarized in the economic development scorecard (see Annex 2). It may also draw on the sector and subsector assessments completed as part of the CDSS process, (see Annex 3), and summarized in the next section. The use of tables and charts to clarify and underscore this analytic assessment is encouraged.

Based on its own analysis and those of such institutions as the World Bank and the IMF, the mission should summarize the roles in overall economic performance played by the three main economic sectors: agriculture, industry (which includes manufacturing, mining and construction) and the services sector (which includes financial services, transport, communication, and wholesale/retail trade, as well as the provision of services such as education, health services, and other social services). Apparent opportunities for, as well as significant constraints to, encouraging sustainable economic growth in each of these sectors and key subsectors should be briefly identified. Detailed assessment and analysis of these opportunities and constraints should be provided in the sector assessments described below.

The macroeconomic analysis section should also highlight the role of domestic political and institutional constraints in perpetuating weak economic performance or in offering scope for improvements in performance. For its description of these forces, this section should draw on the more detailed analysis of a country's institutions and political economy which are described in subsequent sections of this guidance.

The broad macroeconomic summary described above should principally summarize the conclusions reached in the more detailed analyses performed as part of the CDSS process. The emphasis should be on providing an integrated overview of the many individual elements important to describing a country's macroeconomy.

### 4. Summary of Sector and Key Subsector Assessments

This section should summarize the results of the detailed assessments missions undertake of the three main economic sectors--agriculture, industry and services--and of the key subsectors identified above. Guidance for carrying out these assessments is provided in Annex 3 (attached).

Through these assessments, together with the overall macroeconomic analysis discussed above, missions should analyze the current and potential contribution of each sector and key subsector to overall economic performance. Major problems and constraints that impede progress on a sector or subsector-wide basis, as well as broad opportunities for economic growth, should be identified.

CDSS sector assessments address four major areas of concern. First, the sector assessments describe the structure and past performance of the sector in question, including key quantitative indicators of performance, both within the sector and compared to other sectors, and they analyze the linkages of the sector to the country's macroeconomy and, where appropriate, the international economy. This descriptive analysis provides a background for identification of potential opportunities within the sector which may contribute to economic growth and progress in the country.

Second, the sector assessment identifies the beneficiaries of past economic growth (or the lack thereof) in a particular sector. This includes those who have been affected, both positively and negatively, by economic growth and past development assistance efforts, direct as well as indirect beneficiaries, and those in other sectors who have benefitted from economic growth in the sector in question. Beneficiary groups in the sector which are most at risk or most in need, and thus who may be the major beneficiaries of future development assistance efforts should also be identified. (In this regard, see Box 2 on Gender Issues.)

Third, the constraints which impede growth and broad-based participation in economic progress on the sector should be identified and discussed. These constraints stem from many different sources, including the country's natural environment, international and domestic market forces, and a country's political and institutional environment. These (and other) constraints operate at a variety of levels--international, national, sector and sub-sector--in defining the environment within which sectoral growth occurs. In addition to describing these constraints--and related opportunities--which are relevant to the growth and development of the three sectors and key subsectors, missions should briefly summarize what the host country, other donors, and A.I.D. have done and are doing to address these challenges.

The fourth and final element of the sector assessment summary should identify potential opportunities for improving the performance of the sector and key subsectors in contributing to broad-based and sustainable economic growth. This assessment of opportunities will draw on the detailed sector and subsector assessments themselves, a review of the host country's development goals and strategies, and an assessment of the comparative advantage of A.I.D., as one of many donors, in providing assistance to the sector (and subsectors) in question.

Having identified potential opportunities and associated constraints in each of the three main sectors and a number of key subsectors, this section must provide the analytical basis for the prioritization of these opportunities which will subsequently be targeted for A.I.D. assistance and which will be described later in the CDSS document. Given the overall goal of increased economic growth and enhanced human welfare, missions have to determine priorities both among the three main sectors and across subsectors. This prioritization process should identify which sectors and subsectors will generate the greatest returns from incremental investments in a country's economy.

## Box 2. Gender Issues

As part of the CDSS preparation process, missions are encouraged to examine constraints to and opportunities for full, productive participation of women as well as men in the development process.

Key to doing this is obtaining and reporting gender-disaggregated data which enable missions to identify where gender differences are particularly likely to affect opportunities for participation in the economic development process as well as the success of outcomes.

Listed below are relevant data needs and basic issues and questions which arise in each of the major components of the CDSS document.

Missions are encouraged to respond to these needs and issues in the preparation of the CDSS to the fullest extent possible.

### Characteristics of the Economy

It is important to have an accurate picture of male and female human capital in the country as well as significant gender differences in such areas as division of labor, market linkages, and sources of income. It is also useful to perform gender-disaggregated analysis of demographic trends and their effects on labor force participation, productivity, and changes in number of households in which women are primary providers. To conduct these analyses, the following data are required (all disaggregated by gender, where available), from which trends can be estimated:

- population increase, morbidity and mortality
- internal and external migration rates
- female-headed households
- disaggregated profile of labor supply (by age and gender)
- rural employment (farm and off-farm), unemployment and underemployment
- urban employment (formal and informal), unemployment and underemployment
- household income distribution (urban and rural)
- intra- and inter-household allocation of resources.

### Record of Development Performance

Economic development does not necessarily enhance of the productivity of all people. In particular, women may benefit to a lesser extent than men, thus limiting their contributions to economic growth. Programs may focus on sectors or sub-sectors where women are not active, where service institutions may lack interest and

capabilities to reach and assist females, and where education and training may exclude women due to scheduling and location. To address these needs, trends in the following (gender-disaggregated) data may be examined:

- poverty levels (by household head, age, gender)
- employment and income levels, by sector
- productivity, by sector
- access to services (housing, potable water, electricity, health services, etc.), by age and gender of household head
- nutritional status, by age and gender
- enrollment and completion rates in primary and post-primary education and training
- levels of education and skills training
- literacy rates
- availability of educational facilities, teachers, and teacher training
- access to participation in democratic processes (voting, etc.)

### Summary of Macroeconomic Analysis

In a given country, men and women may have differentially contributed to and been affected by a range of various forces and elements treated in the CDSS macroeconomic analysis. These elements include: determination of areas of comparative advantage; sectoral growth and employment; magnitude and severity of poverty and unemployment; sectoral response to macroeconomic and institutional changes; etc. Furthermore, it is important to identify ways to open opportunities so women can respond more effectively in the future.

In doing so, relevant data requirements include gender differences in the impact of market, policy, and institutional forces on:

- employment, income, and productivity
- private sector participation
- access to credit and savings
- access to education and skills training
- access to services
- participation in democratic processes.

### Sector Assessments

In all three sectors, impact indicators (e.g., household consumption, assets, quality of life) should be gender disaggregated. For individual sectors, particular variables and indicators are especially important, as follows:

### **Agriculture Sector**

Men and women often play important and different roles in the agricultural sector. Attention to gender issues can, among other things, eliminate bottlenecks in production and marketing, increase success in technology transfer, and increase adoption of improved practices. Relevant data include:

- gender specialization in agricultural, forestry and fisheries production and input utilization
- allocation of labor (e.g., planting, weeding, marketing, processing), including seasonal variation
- gender differences in constraints on agricultural productivity and income generation, through differential access to productive resources, availability of services, policy and institutional constraints, etc.

### **Industrial Sector**

Small and microenterprises typically constitute a large portion of the industrial sector in developing countries. Women make important economic contributions to this part of the sector because there are generally fewer barriers to their participation. A majority of jobs in free trade zones and export manufacturing firms are held by women, but there are significant barriers to participation at the management and ownership levels. An assessment of gender-related differences is important to increasing labor force productivity. Relevant gender-differentiated data include:

- participation in microenterprises, small, and larger businesses in the sector (by business type, size, employment, etc.)
- labor force of export industries (by position, income)
- employment trends in targeted industries
- legal, administrative, and administrative constraints to doing business (taxes, access to foreign currency, registration, etc.)
- changes needed to increase productivity (e.g., child care, family planning, and health care services, training programs).

### **Services Sector**

Women typically constitute a large proportion of those employed in developing country service sectors, particularly in communications, health, education, and personal services. Because many of these are public sector services, women may be differentially (and adversely) affected by changes imposed on these sectors, most notably, structural adjustment measures. Relevant gender-differentiated data to address these and related concerns include:

- employment and income in public and private sub-sectors of the services sector
- legal, regulatory, and administrative constraints and impacts
- linkages to other sectors and the national economy
- changes needed to increase productivity, which vary across this heterogeneous sector.

Together with the broader macroeconomic analysis discussed in the preceding section, this summary of sector and subsector assessments (and the assessments themselves) constitute an important basis for the analyses called for in Parts II and III below. Development of a sound development assistance strategy thus depends heavily on the quality of the macroeconomic and sectoral analyses undertaken.

5. Institutional and Human Resource Base for Development

This section should determine whether the country has the public and private institutional and human resource capacity to implement its development programs. It should assess the public and private sectors and the indigenous analytical ability to examine policy alternatives and explain their consequences to the public and decision-makers. It should assess the government's capacity to implement development programs and to coordinate foreign donor assistance effectively. This section should determine the capacity of the private sector to take advantage of new investment opportunities and to adjust as markets and sources of potential investment change. Finally, this section should suggest how the capacity of the private sector to make intelligent production and investment decisions can be improved.

As part of the broad CDSS exercise, missions may wish to prepare comprehensive country-level Social and Institutional Profiles (SIPs). SIPs are intended to provide missions with an improved understanding of the socio-cultural and institutional context for development. SIPs explore the composition, functions, and performance of social groups and of institutions in specific developing countries and explore the socioeconomic trends that underlie host country potential for sustainable, broad-based economic growth. SIPs broadly include a description and analysis of social systems and cultural patterns, a discussion of the effects of socio-cultural trends on economic development, a description of key public and private institutions, and a discussion of the human and financial resources available to these institutions. Key social characteristics might include population profiles by age, gender, employment status, and level of education. Analysis incorporated in the SIP might emphasize social constraints to development including, for example, differentiated access to resources among population groups or by gender. Further analysis might emphasize socio-economic trends relevant to development such as urbanization and the interrelationship between the public and private sectors. Institutional characteristics may be classified by ownership (public/private), organizational structure (and its effectiveness), spatial criteria (national/local), or other criteria (formal/informal or modern/traditional).

Missions that are unfamiliar with the SIP process should contact PPC/PDPR for further guidance.

6. Host Country Development Strategy and Policy Orientation

This final section of Part I should assess the host government's development strategy and plan, its economic policy orientation, and their consistency. It should highlight the role of the private sector in the government's policy framework. It should discuss the appropriateness of host government policies and public investment strategies in light of the governments underlying development goals.

**This section should comment on whether the explicit and/or implicit official development goals and strategy are realistic and consistent with available resources and domestic institutional and human resource capacities. Using the results of the economic policy orientation typology (Annex 2), this section should examine whether host country economic policies, public investment priorities, and development programs (including any stabilization and structural adjustment programs) are oriented toward supporting competition, free trade and full private sector participation in all parts of the economy.**

**The section should analyze the domestic political environment in the country, identifying the key economic, social and political interest groups, and their respective influence on economic policies. This analysis should summarize, where appropriate, the recent history of policy reform efforts and identify initiators, outcomes, and gains and losses from past reform efforts. The mission should also discuss the current economic policy framework and performance in light of the country's basic approach to economic management, and ascertain whether there would likely be sufficient political support for future reforms. In sum, this section should address the fundamental question: Does the domestic political environment support a development strategy and policy framework conducive to broad-based, sustainable growth?**

## PART II. OPPORTUNITIES AND CONSTRAINTS

Part II should summarize the key economic opportunities facing the country in both domestic and international markets. Opportunities may arise for the economy as a whole as well as for individual sectors and subsectors. Second, this part should clearly define the major constraints the country faces in trying to take advantage of these opportunities. This analysis should build on the macroeconomic analysis and sector and subsector assessments summarized in Part I. It should provide a more detailed look at the specific opportunities and constraints for the economy in general and for the key sectors and subsectors which the mission has identified as being most likely to engender or hinder sustainable, broad-based economic growth.

### 1. Key Economic Opportunities for the Country

The discussion in this section should focus on new markets and entrepreneurial opportunities for the economy as a whole as well as for key sectors and subsectors. This assessment should be made for both domestic and foreign markets. In general, opportunities for an expanding urban market and/or more productive rural sector should be identified. Opportunities for improving market information and joint venture opportunities that can be effectively promoted should be presented. Ways in which the country can take advantage of new technologies in communications, transportation, data processing, packaging and marketing, and in the production of various commodities or their components for international trade should be identified. These opportunities should be distinguished for the economy as a whole, for agriculture, industry and services, and for the key economic subsectors with potential for making significant contributions to growth. Untapped or underutilized productive capacity in the population (e.g., women) should be discussed.

In the characterization of opportunities, particular attention should be paid to those arising in the domestic economy versus the international economy. The country's comparative advantage, based on its resource endowment and the relative abundance or scarcity of different factors of production, should be compared with those of its traditional and potential trading partners. This analysis should go beyond the potential for increasing "traditional" exports, since for many countries larger gains can be expected from "non-traditional" exports.

Along with the opportunities for increasing output, employment and economic activity this section should also assess the country's investment climate. The risk-adjusted rate of return to investment in this country should be examined to determine whether it compares favorably or unfavorably with investments in other countries. Differences in this assessment for domestic versus foreign investors should be articulated.

### 2. Key Constraints to Development

This section should analyze the key constraints to realizing the opportunities identified above. All constraints that stand in the way of achieving sustainable, broad-based economic growth and a more successful development path should be assessed. This includes an examination of constitutions, statutes, and common laws and practices that constitute the rules of the marketplace.

**For the economy as a whole, the role of legal, regulatory, and social institutions in encouraging or inhibiting the response to productive incentives in both formal and informal sectors should be assessed. The security of property rights, the enforceability of contracts and their effects on investment and production incentives in each of the three major sectors should also be examined. Gender-specific constraints should also be considered.**

**This section should describe the role of fiscal and monetary policies in promoting price stability and allocating sufficient credit to the private sector. Formal constraints to the development of long-term debt and equity should be identified. Missions should examine short-and-long term interest rates in encouraging investment and economic growth and the proper balance between capital and labor-intensive production. This section should assess the role of overvalued foreign exchange rates in encouraging capital imports and import-dependent production and discouraging more labor intensive export development and more efficient import substitution.**

**In addition to discussing economy-wide constraints, missions should determine whether barriers exist in domestic and foreign markets for the three main sectors and key subsectors of the economy. For example, import and export licensing requirements, quotas and tariffs can create insurmountable constraints to whatever trade opportunities might exist. In domestic markets, inadequate levels, quality, and maintenance of infrastructure, education, and other public goods can present serious obstacles to growth and development. An attempt should be made to differentiate the constraints and obstacles applicable across international and domestic markets.**

**The provision of public goods, such as those directed toward infrastructure, education, preventative health, family planning services, nutrition, the environment, science and technology, and natural resources should also be examined. In this assessment, the determination should be made as to whether the provision or lack of public goods creates opportunities or impediments for growth and development. Missions should assess whether institutions and resources, both financial and management, exist to provide adequate levels of public or quasi-public goods, and whether these institutions are organized to reach the poor who are most in need of these services.**

### PART III. THE POLITICAL ECONOMY OF REFORM AND INSTITUTIONAL CHANGE

A.I.D. recognizes that many of the more important constraints and obstacles to sustainable, broad-based economic growth are the result of a country's political, legal and institutional configuration, and its policies. This part of the CDSS counsels missions to examine the degree to which constraints of this nature impede progress in the country in question.

This part is comprised of three major sections. The first section will examine current policies, their impacts and the institutions that support them. It is followed by a political economic analysis of needed policy reforms. The final section will present those institutional changes, broadly defined, that are required if policy reforms are to be sustained.

#### 1. Supporting Coalitions for Current Policies

A political economic analysis is required to determine to what extent the constraints and obstacles identified in Part II are the result of the presence and actions of powerful interest groups. In this transparency analysis, the winners and losers from current policies should be identified. The sustainability of the institutions and policies that support these constraints and obstacles should be assessed. For the various groups that are identified, the short-term versus the long-run gains and losses resulting from current policies should be examined.

#### 2. Needed Policy Reforms

Those policy reforms that would promote economic efficiency and counter the constraints and obstacles identified in part II should be identified and discussed here. The likely distributional consequences of these policy reforms should be analyzed. In particular, missions should examine whether they would improve opportunities for poorer segments of a society to obtain employment, raise their income levels, and more generally improve their standards of living. Missions need to determine who is likely to win and lose, in the short run as well as the longer run, if policy reforms are implemented.

The influential socioeconomic and political interest groups that are likely to oppose potential reform efforts should be identified, as should the potential for popular reaction in favor of or against particular reforms. Then, the mechanisms or approaches that can be used to obtain political consensus for the implementation of the potential reforms should be discussed. These mechanisms might include compensation offered to those groups who are harmed by the adjustments that emerge after the policy reforms are implemented. For example, missions should examine whether there are public goods that might be offered as policy reforms are implemented--in the areas of health, and education, for example---that would ease the pain of adjustment resulting from the policy reforms. Such goods might also contribute to long-term economic growth through the development of human capital. Safety nets, compensation schemes and other targeted programs to accomplish a shift in constituencies favorable to the reforms should be examined. Missions need to analyze how the interests of those groups which will benefit from reforms are likely to be articulated and channeled. These issues should all be covered in the discussion.

3. **Institutional Changes and the Sustainability of Reformed Policies**

**The institutional changes that are required for policy reforms to be sustainable should be presented and analyzed. Missions should discuss whether these institutional changes would effectively alter the level and distribution of political power within the country. It should be shown how potential changes would increase the relative influence of those interest groups who benefit from current economic policy or from potential reforms.**

**Other issues that missions are encouraged to address in this section include the following: (a) whether current institutions impede or promote innovation, the development of new products, new methods of production and the emergence of pricing signals that properly reflect economic opportunities; (b) what institutional changes are required to promote economic and civil freedoms; and (c) what is the relative role of civil, economic and political freedoms in supporting or facilitating sound policies?**

**Finally, missions should examine whether the country has the managerial and technical capacity to collect and analyze relevant information, determine the impact of policy alternatives, make wise choices among them and manage their implementation, and what should be done if these skills are deficient. The compensation schemes and safety nets that are needed to make institutional changes resistant to external shocks and to painful adjustment paths for specific groups should be discussed and analyzed.**

**PART IV. HOST COUNTRY DEVELOPMENT STRATEGY,  
DONOR PROGRAMS, DONOR COORDINATION  
AND OFFICIAL ASSISTANCE LEVELS**

This part of the CDSS should discuss the host country's development strategy in light of donor activities, including those of A.I.D., and the opportunities and constraints identified earlier in the CDSS. The country's general development strategy (reviewed in Part I), along with its macroeconomic and sectoral policies and overall institutional configuration, create the background and incentives which will, in large part, determine the results of development assistance interventions. Donor assistance is but one element in the mix of domestic and external factors which contribute to observed country outcomes.

In the majority of A.I.D.-assisted countries, the U.S. is not the largest donor. It is becoming increasingly important for A.I.D. to assess its effectiveness in light of the total donor program in a country and to seek resolution of any counterproductive policies or activities. This section should describe overall ODA levels and the work being supported by other key donors. Existing mechanisms for donor coordination, both formal and informal, and whether they are effective, should be examined. Opportunities for improving coordination should be identified. Missions should address whether a consultative group exists and how effective it is. If it is not, steps to improve its functioning and other alternatives for enhancing donor coordination should be discussed.

The effectiveness of other donor support in addressing the key problems and constraints identified in Part II should be evaluated. A quantitative overview of all donor activity against the background of host government investments, disaggregated by sector and problem areas (e.g., the constraints discussed in Part II) and presented in both absolute and percentage terms should be given.

The final element of this part should be a summary description of A.I.D.'s current program as it enters into general donor support efforts and as it may serve as a backdrop to the development of a new or revised mission strategy in Part V. The extent to which the mission's current program responds to the key opportunities and constraints identified above should be candidly assessed.

## PART V. U.S. DEVELOPMENT ASSISTANCE STRATEGY

This final part turns to the A.I.D. mission strategy for promoting and supporting policy and institutional changes needed to achieve sustained, broad-based economic growth.

The first section addresses the U.S. assistance strategy; the second discusses strategic coordination among all multilateral and bilateral donors; the third section addresses the way in which the mission proposes to monitor progress toward reform and institutional change; and the final section treats the full range of resources needed to implement the proposed strategy.

### 1. U.S. Assistance Strategy

The U.S. assistance strategy must be set in the context of the total resources available to support development and adjustment--resources A.I.D. has already committed, resources from other bilateral donors, those from multilateral development institutions and the IMF, those from private sector investments and capital flows and domestic savings of the host country itself. The U.S. approach must take into account the strategic priorities associated with each source of funds, and it should consider ways to help the host country make the best use of all available development resources in achieving an appropriate mix of policies for successful development.

The strategy should indicate how the U.S. can make the most cost-effective contribution toward improving the country's sustainable development performance with the mechanisms likely to be available in its assistance program. The U.S. assistance strategy should be based on the analyses summarized above and represent a carefully considered choice among the available alternatives. The strategy will reflect financial and personnel resources and diplomatic influence. The discussion of strategy choices ideally should include the rationale for alternatives foregone; in any case, the mission should be prepared to defend its choices among alternatives and to demonstrate that the necessary requirements for sustainable, broad-based economic growth are being adequately addressed.

This section should be developed in active consultation with the host country government, public and private sector representatives of the host country, and appropriate other organizations and institutions (PVO's, universities, long-term contract teams, etc.). This consultation should focus on an analysis of the country's problems, opportunities and relative priorities; overall investment requirements and other donor inputs; and alternative U.S. assistance approaches, including their advantages and disadvantages.

With respect to each area of opportunity, specific development objectives should be identified--short and long-term, possibly extending beyond the CDSS period--together with measurable development benchmarks. The discussion should indicate the likely prospects for progress in addressing the country's development problems with and without the proposed A.I.D. assistance program. Finally, this section should consider any special diplomatic efforts that might be required to assure success, such as in support of macroeconomic policy changes and/or structural adjustments.

2. Strategic Coordination

This section should consider whether the U.S. should seek changes in other donor assistance (e.g., higher levels, alternative terms, conditionality, and sectoral allocation) or in the activities of other U.S. government agencies to assist the host government to achieve more rapid growth and development. If any donor's policies or programs conflict with a sound development strategy, a description should be given of those steps that should be taken in consultation with A.I.D./W, through an OECD development assistance committee (DAC), the World Bank consultative of group meetings, and/or other international donor fora to change them. Likewise, if the activities of any other U.S. agency are in conflict with sound development objectives, those steps that should be taken to effect the necessary changes should be described. Once an approach to coordination among all donors has been developed, this section should also describe a workable strategy for policy dialogue and for obtaining political consensus on desirable reforms that will achieve growth and development. How the mission plans to implement this strategy should also be discussed.

3. Goal and Process Indicators

This section should identify appropriate strategic objectives and the corresponding impact and process indicators that the mission proposes to use for tracking progress in areas selected for A.I.D. assistance, as well as the record of host country progress in those areas. Progress can be defined in terms of results and impacts, policy reforms, and institutional changes in support of those reforms. Society-wide measures that focus on distributional implications (e.g., by income group, gender, geographic location, etc.) should be considered.

Taking into account evaluations and other sources of information on prior A.I.D. efforts, the mission should also explain how much of any progress it plans to measure will be attributable to prior or planned A.I.D. assistance. It should then explain how the proposed strategy can be expected to affect future progress, as measured by these indicators. As in Part I, country data will be made available to the mission by CDIE. To the degree that the mission specifies indicators for which there is not a currently acceptable data source, the mission needs to articulate how that data will be collected and what it will cost.

4. Resource requirements

This section should consider the full range of resources seen by the mission as necessary to implement the proposed intervention strategy set forth in Part V.1 The discussion should include consideration of required financial, human and institutional resources, taking into account the availability of other donor resources (Part IV) and host country implementation capacity (Part I.5). The mission should spell out the relationship of specific resource requirements to each of the components of the strategy; policy dialogue, training, research, institutional development, etc.

**It should also indicate the overall impact of implementing the proposed strategy on the cost of operations in country (e.g., larger or smaller direct-hire mission staff; different skills mix requiring transfers; greater reduced reliance on personal salaries contractors).**

**In assessing the resource implications of its proposed strategy, the mission should assume continued constraints on the likely overall level of available resources, both financial and personnel. However, mission planners may wish to think about the possibilities inherent in increased flexibility of available financial resources.**

**With respect to financial resources, the discussion should indicate the level, type, and timing of funds needed by the mission for program development and implementation, staff support and operations. The discussion of appropriated U.S.G. resources should treat specific DA, ESF, PL 480 requirements, and any possible trade-offs, as well as housing and private sector loan guarantees. Particularly with regard to food aid, the mission should describe how the proposed food aid components of the program--PL 480 Title I/III. Title II, Section 206, etc.--address specific strategy objectives and how the proposed commodity mix fits within program objectives and recipient country needs. The discussion should reference available host country local currencies, including counterpart for program support as well as trust funds for operating costs.**

**A full consideration of mission financial resource requirements should relate the needs of the pre-existing program--both the management of the anticipated pipeline of expended activities to be continued and the funding of the uncompleted plans to be fulfilled--to the requirements of the new strategy. The discussion also should include the potential for shifting the program and taking deobligation-reobligation actions from funds previously committed to the base program to meet part of the new demands.**

**The discussion of human resources should consider levels and kinds of expertise needed by the mission to carry out the proposed strategy. It should include anticipated requirements for U.S. and foreign national direct hire staff and contractors, taking into account the level and quality of indigenous human resources--in both the private and public sectors--and those of other donors to the demands of the identified strategy. Personnel implications of the strategy must include consideration of alternatives to avoid project proliferation and the fragmentation of management and staff time into multiple sectors resulting in over-stretched mission management and personnel capacities.**

**The discussion of institutional resource requirements should include identification of needed capacity and consideration of expertise available to the mission from indigenous sources, as well as those of the US and third countries. These sources will include private sector consulting firms, private voluntary and cooperative organizations, universities and research institutions.**

## REQUIRED CDSS EXHIBITS

### Country Map

Missions are requested to include a country map that will reproduce clearly as part of their CDSS.

### CDSS Tables

The following analytical tables, which are directly related to the analysis expected in the CDSS, must be attached to it. A more comprehensive set of tables, including backup data tables for these, should be attached to the macroeconomic analysis described in Annex 1 to this chapter. Many of these data will be available from the Center for Development Information and Evaluation, A.I.D.-Washington. (These attachments do not count against the 60-page double spaced limit of the basic document.)

1. **National Accounts:** Real annual growth rated by sector of origin for the last 10 years (based on constant price data) and, in one column, percentage contribution by sector for latest year (based on current price data).
2. **Productive Employment:** Growth over last ten years of employment in the modern, more productive sectors of the economy for which data exist, as compared with the growth in the labor force. Growth in productivity per hectare and per worker in agriculture and other "traditional" sectors of the economy, to the extent data permit.
3. **Foreign Exchange Earnings:** Growth of export and other earnings of foreign exchange over the last 10 years, expressed in constant dollars, by major source--but always to include "non-traditional" exports, as compared with the growth of real GDP and with the real, trade-weighted foreign exchange rate index.
4. **Key Indicators of Social Welfare and Poverty Reduction:** Trends over at least the last 10 years (disaggregated by gender to the extent data permit) in a percentage of population below absolute poverty, divided, if possible, between urban and rural, b) relative income distribution, c) percentage of population with F.A.O. critical level of caloric intake, d) percentage of children under five with chronic and severe undernourishment (less than 60 percent of weight or height for age nor, or 2 standard deviations below the mean weight/height for age), e) infant mortality, f) child (1-4) mortality, g) life expectancy at birth, h) primary school enrollment, by sex, j) adult literacy, by sex, and k) percentage of couples with access to a wide range of acceptable voluntary family planning services. (Much of this information is readily available, e.g., from the IBRD social indicators data base, and can simply be summarized in this table to inform the CDSS discussion.)
5. **Economic Policy Orientation Typology.** See Annex 2 to this chapter of Handbook 2 for a copy of this check list and guidance on how it is to be completed.

## ANNEX 1

### MACROECONOMIC ANALYSIS FOR A CDSS

#### 1. Purpose

The purpose of the CDSS macroeconomic analysis is to identify which basic economic activities of a country are performing poorly, to find out why the performance is poor, and to determine what can be done to improve it. The macroeconomic analysis should compare the potential contributions of the various economic sectors (and subsectors) to improving overall development performance. It should consider the primary causes of poor performance and the unrealized potential for improvements, in order to identify priority subsector candidates for assistance. These are then to be subjected to the more detailed subsector analyses set forth in Annex 3. Descriptive narrative should be used to provide the necessary background, country context and analytical framework, but should be kept to a minimum. The emphasis must rather be on the analysis of 1) factors causing economic inflexibility and failure and 2) the potential for improved performance from policy reforms, institutional development and alternative investments.

#### 2. General Approach

While a comprehensive analysis of the economy is needed for the CDSS, missions are not expected to duplicate the work typically available in the latest World Bank, IMF and host government country reports. A.I.D. economists should start with available secondary material, utilizing its information and conclusions as appropriate. They should supplement such material with their own analyses where it is deficient for our purposes or needs to be updated. Much of the macroeconomic analysis is to be drawn from separate assessments of the three component sectors of economic activity--agriculture, industry and services, the guidance for which appears below. A list of suggested data tables to support the macroeconomic analysis is also attached, and other tables may be added to clarify and support analysis.

#### 3. Suggested Outline and Discussion of Major Topics to be Covered

The following outline is suggested for the macroeconomic analysis presentation in a CDSS:

##### I. Country Economic Profile, Recent Trends and Problems

##### A. Natural resource base, its use and sustainability

The natural resource endowment of the country should be described briefly as the physical context of its economy: its size and productive geographic features such as cultivable and pastoral land, forests, coastal and inland waters with fishing potential, its climate, mineral deposits, etc. This section should describe resource use, the extent of their damage or depletion, and their potential for more productive sustainable uses.

## **B. Population and labor force**

This section should describe the size, geographic location, age structure, growth rates and other important characteristics of the population and labor force, including the rural/urban ratio, the rate of urbanization, the dependency ratio, and the proportions of the labor force engaged in major occupational categories, the latter in total and by gender. The analysis should identify the major poverty groups by household type and occupational category and define their sources of income and other relevant characteristics.\* It should describe the major causes of poverty, by group, discuss the potential for existing and alternative sources of earned income to reduce poverty over time as the population grows, and analyze the various constraints that inhibit the realization of any such potential.

Particular attention should be paid to productive employment and the extent and causes of unemployment and underemployment, by sector (and, as appropriate, by key subsector). Every attempt should be made to measure the growth of productive employment and compare it to the growth of the labor force. Increasing productive employment encompasses the generation of new jobs and improving the productivity of those workers already employed. "Employment" here includes the self-employed, such as in agriculture and the informal sector. "Increasing productive employment" includes, for example, improvement in agricultural productivity per worker.

The analysis should look at trends in real market wages and the rural/urban wage differential, by occupation, and should explain any variance observed in the latter. It should identify and discuss policies such as minimum wage laws, an overvalued exchange rate, low interest rates and other subsidies to capital-intensive investment, and other constraints that inhibit the growth of productive employment. If the country lacks periodic employment and income surveys, the mission should look for proxy data and ad hoc studies to help analyze this important area, while considering support for the appropriate statistical organizations to institute such surveys.

Rapid growth in productive, especially modern sector, employment is a key indicator that market-oriented policies are working and that sustainable, broad-based growth is occurring. Increasing productive employment will increase income earnings of poor households, enlarge the revenue base for essential services, and propel the country forward on a successful development path. If productive employment is not growing faster than the labor force, the analysis must uncover the reasons for this basic economic failure.

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\* The basic data and analysis provided on these points should be adequate to underpin beneficiary analyses required elsewhere in the CDSS.

C. Gross Domestic Product (GDP)

The analysis should look at the level and real growth rates of total and per capita GDP and discuss the contributions to GDP by sector (see separate guidance for each sector, attached). Growth rates should be calculated using constant domestic prices (not U.S. dollar conversions), and percentage contributions by sector should be calculated in current domestic prices. The current contributions and recent trends of the major economic sectors--agriculture, industry and services--should be compared with an analysis of their future potential.

The discussion of GDP should also portray the relative roles and efficiency of publicly and privately-managed activities in each sector, and in the economy as a whole. Sector comparisons of factor (land, labor and capital) productivity might suggest potential gains from developing and/or introducing more productive ~~shifting~~ *technology or* productive factors from one sector to another. The presentation should explain whether GDP per capita is increasing in sectors that can sustain high levels of growth in output and productive employment without undue damage to the environment, strain on the balance of payments, debt accumulation, import dependency, or unsustainable growth in the public sector.

The level and recent trends of savings and investment, both public and private, foreign and domestic (but especially private and domestic), and the productivity of investment (the capital/output ratio) should be thoroughly analyzed. Of particular interest are:

- 1) the real interest rate structure and its effects on private savings and investment and on the labor-intensity of production;
- 2) credit availability to private entrepreneurs and investors, including those in the sector;
- 3) the incentive climate for private investment, domestic and foreign, including a discussion of the investment code;
- 4) the role and adequacy of financial institutions; and
- 5) policies and other constraints that inhibit investment in more productive technology and in product lines where the country has an obvious or latent comparative advantage.

**D. Export earnings, balance of payments history**

The growth of real foreign exchange earnings is another basic indicator of market-oriented policies that affect investment incentives in export and import substitution activities. Such policies tend to make the most productive use of domestic resources, including labor, according to the country's comparative advantage in trade, and they allow the country to pay for the imports needed as inputs for further economic growth.

The analysis should look at export and other current account earnings of foreign exchange as a share of GDP, and its growth rate, along with the composition and recent trends of import demand, net export earnings by sector, particularly from non-traditional exports, and whether there is evidence of an undue import dependency in particular subsectors or industries.

This section should describe recent balance of payments trends and how deficits on current account have been handled, i.e., through external borrowing, administrative restrictions on imports, adjusting the real exchange rate, and/or controlling domestic demand. In particular, this section should:

- 1) discuss the accumulation of external debt and the debt service ratio to exports;
- 2) analyze recent foreign exchange rate history, describe the relationship between the official and the "parallel market" rates of exchange, and discuss recent 10-15 year trends in the real, trade-weighted purchasing power parity of the domestic currency in international markets;
- 3) describe the use of tariffs and administrative measures to reduce imports (such as quotas and restricted licensing) and other controls to prevent larger current account deficits and analyze their effects on economic growth;
- 4) analyze effective protection rates and their effects on investment including the domestic resource costs per dollar saved of key import substitutes;
- 5) discuss the use of export taxes to generate revenue and their impact on investment incentives and export production; and
- 6) analyze any other constraints and disincentives to investment in the production of exports and competitive import substitutes.

**E. Price stability and market orientation**

Foreign exchange rate stability and productive investment incentives depend on domestic price stability, which is determined largely by the budget deficit and how it is financed. Attempts to control directly the symptoms of price inflation, rather than correct its causes, usually wreak havoc with domestic investment and production incentives. This section should discuss the rate of domestic price inflation and analyze its causal factors. It should also analyze the market orientation of the domestic economic policy framework and the extent and efficiency of public sector control and involvement. This should include an analysis of:

- 1) government expenditures and revenues and the resulting fiscal deficit, including how the latter is financed;
- 2) the extent and impact of government subsidies to either producers or consumers;
- 3) the role of government owned or controlled enterprises and their efficiency, including their losses and contribution to the fiscal deficit;
- 4) public sector recurrent expenditure and investment priorities, especially for the maintenance of economic infrastructure and the provision of essential economic and social services and for public investment;
- 5) the incentive effects of the current tax regime and how it might be improved; and
- 6) the magnitude and financial impact of public domestic debt.

The analysis should cover monetary policies and the growth of the money supply and should describe any price and marketing controls and analyze their effects on production and consumption.

**II. Major Economic Opportunities: A Summary**

**A. Investment opportunities and potential efficiency gains**

This section should summarize the potential gains from policy reforms leading to price stabilization and a greater market orientation of price incentives, to structural adjustment toward the country's comparative advantage in trade, and to the more efficient operation or privatization of government run enterprises. Legal and institutional reforms to correct the constraints identified above or in the sector assessments should also be summarized. This section should discuss and compare investment opportunities and the potential, by sector, for:

- 1) more rapid growth in production with existing technology,
- 2) increased productivity with improved technology,
- 3) growth in productive employment, and
- 4) import substitution.

It should also identify the need for specific policy reforms, for improved economic infrastructure, and for more cost-effective public services to realize this potential.

**B. Identification of key economic sectors for more detailed analysis**

The macroeconomic analysis should identify key economic ~~sub~~sector (and ~~at times~~, subsector) candidates for development assistance, which are then to be subjected to the more detailed assessments outlined in Annex 3, to determine their relative priorities for U.S. assistance. This first cut among sectors is to be based primarily on their relative importance and potential contributions to:

- 1) sustainable, broad-based economic growth and development, including essential human capital development,
- 2) increased productivity and productive employment generation within the subsector and in the overall economy,
- 3) net earnings or savings of foreign exchange,
- 4) improved fiscal health, and
- 5) an improved capacity of target beneficiary groups to produce and earn income.

Only when priorities among the three main economic sectors have been agreed upon by the mission's CDSS team should priorities within each of them be established. In setting priorities, other donor assistance to the various sectors and subsectors should be taken into account, along with the comparative advantage and relative necessity of U.S. assistance.

## ANNEX 2

### ECONOMIC POLICY ORIENTATION TYPOLOGY

#### QUESTIONNAIRE AND EXPLANATION

##### 1. Introduction

One of the most important requirements for the realization of broad-based, sustainable growth in LDCs is the implementation of an economic policy framework that allocates available resources efficiently. The reason for this is clear. The resources available to LDCs are limited and need to be allocated efficiently in order to make growth as high as possible. Even more limited, moreover, are the resources available to LDCs from A.I.D., from other bilateral and multilateral donors, and from private and official international financial markets. In fact, it is extremely rare for the "external" resources available to an LDC to exceed 5% of the annual value of an LDC's production of goods and services.

From the perspective of designing a Country Development Strategy for A.I.D., these two propositions have obvious relevance. For A.I.D. to have an impact on economic growth it must leverage its resources by targeting them on improving the policy framework that LDCs choose to allocate the resources that A.I.D. does not directly control. This needs to be done through the policy dialogue. It also needs to be done through a blend of program, sectoral and project assistance that seeks to correct policy distortions which result in inefficiency in resource allocation.

##### 2. Purpose and Uses of Questionnaire

The prerequisite to achieving this "policy targeting for growth" is to identify the extent, where and how LDC economic policies suppress or promote efficiency in resource allocation. The attached "Economic Policy Orientation Typology" has been designed for this purpose. It contains a set of questions concerning the efficiency with which a country's pricing, tax, credit, fiscal, regulatory and foreign trade and payments policies allocate resources.

The questions have both economic and institutional dimensions. From a sectoral perspective, they deal with the role Government plays in the economy as a regulator, as a producer and as a seller or deliverer of goods and services; how it sets the stage for private sector activity; and the role it plays in determining how prices are determined for producers, consumers and Government itself. From a more macroeconomic perspective the questions deal with how and with what instruments Government seeks to balance aggregate demand with resource availability and how Government policy allocates credit and foreign exchange among competing claimants.

Missions are encouraged to use the results of the questionnaire as a framework within which to identify, categorize and discuss appropriate approaches to policy problems that merit attention at the macro, sectoral and project levels of A.I.D. assistance strategy and activities. From an Agency-wide perspective, the questionnaire and its application within the CDSS framework will permit simple cross-country and cross-region comparisons of the nature of the policy distortions that constrain growth in A.I.D. recipient countries and the variety of approaches missions are taking to deal with them.

3. Application of Questionnaire

For ease in scoring the questionnaire, each question can be answered with a "yes" or "no" response. By associating a "yes" response with the number +1 and a "no" response with the number -1, the result is a simple numerical score for the overall extent to which a country's economic policy framework promotes or suppresses efficiency in resource allocation. The overall score is itself a composite of scores received on key subcomponents of the questionnaire, including, e.g., the fiscal and tax policy regime, the legal/regulatory regime, the foreign trade and payments regime, and the pricing regime.

4. The Unique Importance of Policy to Growth

There are powerful forces that have nothing whatever to do with internal LDC economic policies that are important determinants of LDC economic growth. These include, for example, world market prices and volume demand for the products LDCs export; prices for the products they import from developed countries; interest rates on external debt and the openness of developed country markets to the products in which LDCs have comparative advantage. Given the obvious weight of these exogenous factors determining the level of growth, why should special attention be paid to the role that is played by the economic policy environment that LDCs choose to allocate resources? The answers are clear.

First, the internal policy environment is unique in that it is the only variable determining performance that is directly under LDC control. While LDCs can do little directly to influence world demand and prices for their products, the interest rates they pay on their external debt, and trade openness, they can alter their external policy environments. Second, while good policies cannot ensure that good growth rates will result, such policies can compress the gap between actual and potential growth rates. In essence, performance will be better with good policies than with bad policies even though the level of growth might be very low or negative because of external factors over which LDCs have no control. Finally, prospects for external resource availability for the LDCs in the 1990s are not good. Private creditors of LDCs, recalling the debt crises of the 1980s are likely to follow the adage "once burned, twice shy" in considering the creditworthiness of private and sovereign risk loans to LDCs. There are, moreover, no grounds for optimism that multilateral and bilateral official flows will grow at levels that will serve to replace a reduction in net private flows. With fewer external resources available, LDCs need policies assuring efficient use of their domestic resources. All three of these factors provide strong arguments for emphasizing the importance to growth of the internal policy framework.

Attachment: Economic Policy Orientation Typology

ECONOMIC POLICY ORIENTATION TYPOLOGY

	Four-year Periods <u>1980-83</u> <u>1984-87</u>	1988-Present (latest year <u>available</u> )	<u>Trends/Explanation/Significant Factors that Should be Noted</u>
<b>I.</b>	<b><u>Credit/Monetary Policy</u></b>		
a)	Deposit rates less than inflation.		
b)	Credit allocation by administrative regulation greater than 20% of total credit.		
c)	Preferences accorded public sector: (1) cost of credit, (2) allocation of credit.		
d)	Banking system nationalized		
e)	% of total credit from public banks greater than 20%.		
f)	Central Bank rediscounts on specialized credit lines are greater than 20% of total credit extended by banking system.		
g)	Interest rate ceilings exclude/preclude some borrowers from formal banking system.		

OVERALL CHARACTERIZATION/SCORE

<b>II.</b>	<b><u>Taxation</u></b>		
a)	Income taxes less than 20% of total taxes.		
b)	Effective rate of protection in excess of 20%.		
c)	Interest earned on government bonds exempt from taxes.		
d)	Public Sector entities enjoy exemptions from import, export, other taxes.		
e)	Taxes that distinguish between origin and destination of production greater than 20% of total.		

OVERALL CHARACTERIZATION/SCORE

<b>III.</b>	<b><u>Prices</u></b>		
a)	Economically important input prices subject to controls, public marketing channels.		
b)	Economically important output prices subject to controls, public marketing channels.		
c)	Energy prices held significantly below other domestic prices.		
d)	Significant distortions in the structure of relative prices.		
e)	Over 20% of CPI basket subject to price controls.		

OVERALL CHARACTERIZATION/SCORE

Four-year Periods  
1980-83 1984-87

1988-Present  
(latest year  
available)

Trends/Explanation/Significant  
Factors that Should be Noted

IV. Foreign Exchange Regime

- a) Divergence between official and market exchange rates in excess of 20%.
- b) Exchange rates not uniform across products, across exporters, importers.
- c) Public sector enjoys preferential cost/access to foreign exchange.
- d) Over 20% of foreign exchange transactions outside of primary official rate.
- e) Access to foreign exchange for imports importantly dependent upon availability of domestic substitutes.
- f) Country deemed to have multiple currency practices.
- g) Tariffs, quotas, etc., significantly distort import prices.
- h) Rationing techniques are used to allocate at least 20% of foreign exchange.
- i) Exporters are obligated to sell at least 20% of foreign exchange to Central Bank/Monetary Authority.

OVERALL CHARACTERIZATION/SCORE

V. Policy Response to Exogenous Shocks and Other Adverse Impacts

- a) Domestic prices not permitted to track international price developments for key tradeables (petroleum, energy, grains, other).
- b) External borrowing excessive relative to debt service capacity.
- c) Payments arrearages important source of supplementary external financing.
- d) Stabilization policies not rapidly introduced and not in correct mix/amounts.

OVERALL CHARACTERIZATION/SCORE

Four-year Periods  
1980-83 1984-87

1988-Present  
(latest year  
available)

Trends/Explanation/Significant  
Factors that Should be Noted

VI. Bureaucratic Impacts on Economic Activity

- a) Licenses/approvals for economic activity common and subject to abuse or provide rent to holder.
- b) Administrative rules/regulations are costly in terms of time, fees, procedures.
- c) Judicial system does not guarantee property rights.
- d) Bribery important factor in gaining approvals.
- e) Government does not permit decentralized decisions on local taxes or on revenue collected locally.
- f) Fee for service not established practice in any major area.
- g) Public sector heavily involved in management/ownership of activities that can be run at least as efficiently by private sector.

OVERALL CHARACTERIZATION/SCORE

VII. Overall Measures

- a) Is IMF compliance record poor?
- b) Is World Bank compliance record poor?
- c) Are few influential gov't policymakers committed to market liberalization?
- d) Your overall assessment of antipathy toward markets.

OVERALL CHARACTERIZATION/SCORE

VIII. Sensitivity to Exogenous Shocks/Factors

- a) Strong impact on domestic economy of OECD level of activity.
- b) Heavily affected by international energy price developments.
- c) Drought/other natural disasters frequent.

OVERALL CHARACTERIZATION/SCORE

## ANNEX 3

### SECTOR ASSESSMENTS

#### 1. Introduction

Sector assessments are used to provide general analyses of the major components of the economy--agriculture, industry, and services (including financial services, health care, education, transport, and other essential services)--and to generate insights into constraints to and opportunities for broad-based and sustainable economic growth in these sectors. In addition to providing an analytical overview of the sector, the sector assessment identifies specific economic subsectors which need to be analyzed at a more detailed level in order to design A.I.D.'s development strategy in a particular country. The sector assessment is thus an intermediate level analysis, lying between the overall macroeconomic analysis of which it is a part and detailed analysis of the specific subsectors which will receive priority attention in A.I.D.'s development strategy.

The contribution of each of the three sectors to economic growth and employment and income generation can vary dramatically by country. Similarly, the effects of relieving constraints to broad-based economic growth and development in individual sectors and subsectors also vary considerably. In approaching sector assessments, then, it is useful to think of the three primary economic sectors as envelopes containing a range of current and potential economic activities within their respective subsectors. To gain a clear perspective of the opportunities within a sector, including those to which A.I.D. may wish to assign priority assistance, it is necessary to examine the sector as a whole as well as review its subsectors. This process helps identify, in each specific country setting, which components of a sector are key to future economic growth.

To ensure consistency across mission CDSS's and to take advantage of available data, a standard definition of economic subsectors must be adopted. The system A.I.D. will follow is the International Standard Industrial Classification (ISIC) system of the United Nations. For further details on the ISIC system, see the United Nations Indexes of the International Standard Industrial Classification of all Economic Activities, Statistical Papers, Series M. This system is widely accepted and is the basis for the collection and reporting of standardized data by a variety of international agencies. Table A.3.1 (found at the end of this annex) provides a summary of the elements of this classification scheme.

## 2. Scope

The analytical focus and depth of each of the required sector assessments will vary by sector and by country as a result of unique sectoral and country characteristics and priorities. The level of effort associated with the analyses must, necessarily, vary with mission and program size. Overall, however, these assessments are expected to bear a strong general resemblance. Accordingly, this sector assessment guidance emphasizes the elements of a sector assessment that are common across sectors, and which, as a general rule, should be treated in each sector assessment. Notes on elements unique to each of the three sectors, and their respective subsectors, follow the general sector assessment discussion in Boxes 3-5.

As a general rule, sector assessment should simultaneously address several broad concerns.

- o First, a sector assessment should describe the sector-specific effects that overall macroeconomic activity has on the sector in question.
- o Second, it should describe the relevant intersectoral linkages which may constrain or enhance economic growth in the sector vis-a-vis other relevant sectors. For example, deficiencies in one sector (inadequate infrastructure) may represent the critical constraints to development in another sector (the marketing of agricultural products).
- o Third, a sector assessment should identify the impediments to and potential for broad-based sectoral growth. Of concern in this regard are such factors as the degree of (and potential for) privatization of certain economic functions; the extent to which the distribution of, control over, and access to productive resources is concentrated or broad-based; whether existing private sector participation is concentrated or open to broad participation; the extent to which wages are fair and consistent with productivity and performance; and whether women are given fair opportunities to participate in sectoral economic growth.
- o Finally, the sustainability of sectoral growth must be addressed. Sustainability has several dimensions, and includes environmental sustainability as well as economic sustainability. In the latter connection, financial and managerial components are relevant in addition to the chief criterion of institutional sustainability to generate continued economic growth.

In the following paragraphs, the elements common to all three of the required sector assessments are discussed in detail.

### A. Structure of the Sector

The first step in a sector assessment involves the preparation of an analytical description of the sector. This description should include key quantitative indicators which describe the status of the sector, and explain the sector's linkages to the national and (where relevant) international economies.

## Box 3. Agriculture Sector Assessment

In addition to the elements discussed in the general Sector Assessment guidance (Annex 3), Agriculture Sector Assessments prepared for particular countries may wish to address the following questions and issues as they relate to the agricultural sector:

### Structure

The analytical description of the agricultural sector should be disaggregated by major sub-sector (crop, livestock, poultry, fishery and forestry products) to gauge the differential performance of each as well as the areas of comparative advantage to be targeted by development assistance programs. Important cross-cutting levels of disaggregation typically include:

- food vs. export crops
- commodities vs. high-value crops
- "traditional" vs. "non-traditional" exports.

The distribution of production (both total and for export) and of producers (by size of farm and number of farms) can be a key indicator of a country's past performance and future potential for stimulating growth which is both broad-based and consistent with a country's domestic resource endowments.

### Beneficiary Group Analysis

In agriculture-based economies, or those in which agriculture plays a particularly significant role, potential beneficiaries are especially likely to be rural, active in the agricultural labor force, and targetable through agriculture-based development assistance. Relevant criteria such as access to resources, adequacy of infrastructure and institutional development, access to general services, etc. are often to be dependent on the agricultural sector.

Gender differences play important roles in determining the success of agricultural development efforts in some countries, particularly vis-a-vis specialization in production, labor allocation, and determining productivity growth.

### Constraints Analysis

In many developing countries, the agricultural sector is "taxed" through a combination of macroeconomic and sectoral policies which constrain the incentives faced by producers. What are the implications of this taxation and how can these obstacles be overcome?

Agriculture typically faces a host of uncontrollable exogenous constraints which strongly affect production

and productivity, especially in the short run. These factors include: soil quality; rainfall (quantity and seasonality); plant and animal diseases; drainage; and incidence of natural disasters (flood, drought). How do these factors constrain agricultural development in a given country?

In addition, access to productive resources including land, capital, seasonal labor, and technology is frequently a limiting factor. This is particularly true with respect to land, for which skewed ownership patterns and lack of secure tenure arrangements may be especially limiting.

Agriculture-based economies are often characterized by high seasonal unemployment and underemployment. This affects not only the agricultural sector itself, but also the rest of the economy through the generation of labor surpluses for employment in other sectors, and through the problems created by high rates of rural-to-urban migration.

Improved technologies (high-yielding seed varieties, for example) commonly offer the potential for greatly improved crop yields and productivity. Generally, these increases are limited through constraints in both the availability (of credit, infrastructure, research and extension services) and required complementarity of inputs (e.g., irrigation water, fertilizer, and improved management to complement HYV's).

The high degree of government intervention in agriculture which typically characterizes developing economies means that market-related constraints can limit realized production and productivity gains. These constraints can include: administered output and input prices; controlled marketing margins; input subsidies; export taxes and other trade barriers; monopoly position of parastatal marketing authorities; etc. What policy changes are needed to surmount these?

Other factors of particular importance in limiting agricultural performance include: high transactions, handling, and transportation costs; poor market information; lack of critical mass of marketable surplus; and unfavorable terms of trade in world markets also commonly limit agricultural performance.

Agricultural sector performance, particularly for tradeables, is highly dependent on macroeconomic policy variables, such as exchange rates, fiscal policy, monetary policy, and wage rate policies. These, as opposed to sectoral policies, often predetermine sector outcomes.

Elaboration of these linkages is important not only in assessing the role of each sector in the economy, but also in ensuring that A.I.D.'s development strategy treats each sector in a consistent integrated manner. Both the current economic status of the sector and recent trends as measured by changes in key economic indicators over the past five to ten years should be described. To the extent that data permit, these economic measures should be presented for subsectors (especially key subsectors), as well as at the general sector level.

At the sector level, the analytical description should place the sector in the context of the economy as a whole. This should include a review of the size of the country's GNP and GDP, the sector's percentage contribution to overall GDP, and the growth rate of the sector relative to others over the past five to ten years, with projections for five years into the future. The sector's contribution to the economy can be gauged through other measures as well, including its share in foreign trade (export earnings and contribution to balance of payments), employment, investment, income shares accruing to capital and labor, labor and capital productivity, government revenues, tax burden, etc. Comparisons across major subsectors, sectors and even across countries may be made where data permit and such comparisons are useful.

Similarly, within the sector, there are a number of ways to disaggregate information to gain a clear understanding of important trends, problems, and developments relevant to specific industries and sub-sectors. Relevant approaches to sector disaggregation may vary from sector to sector, and may include a breakdown of enterprises by size, ownership (e.g., family, partnerships, corporation, etc., including gender information), informal vs. formal sector, domestic vs. foreign ownership, private vs. public ownership, and management of key subsectors. The description should indicate, for all sectors, the directions and magnitudes of production, consumption, and trade in both traditional and emerging products and services. The treatment of the services sector may vary from that accorded agriculture and industry in this regard, given the unique aspects associated with the provision of services, by both public and private sectors. Disaggregation by the above means can help identify which groups, industries and subsectors and even which types of enterprises may need to be targeted for future development assistance.

Alternative economic measures and criteria can also be used to help describe the structure of the sector, where appropriate. For specific subsectors, these may include such indicators as: wages (nominal, real, minimum); profit rates; production costs; credit availability and costs; the financing of production and investment; price competitiveness in domestic and foreign markets; trade barriers; rates of effective protection; labor-management relations; public-private sector relations, and so forth.

## B. Beneficiary Group Analysis

The purpose of a beneficiary group analysis undertaken on a sectoral basis is to identify the specific population subgroups which are most at risk or in need, and which can be potentially helped through economically efficient assistance interventions in a sector (or subsector). A.I.D.'s development assistance strategy focuses in large part on increasing incomes and enhancing living standards in developing countries. Accordingly, the emphasis of this section should be the identification of the direct and indirect beneficiaries of economic growth (or the lack thereof) in a specific sector. Both direct and indirect beneficiaries of activity in a sector, including those benefitting from development assistance efforts, should be identified. Key interest groups and coalitions likely to be affected--both positively and negatively--by changes in a sector (e.g., through policy reform, faster growth, or changes in donor strategy) should also be identified.

A beneficiary analysis for a sector should distinguish between beneficiaries who work in the sector being analyzed or live where that sector dominates (e.g., the rural area for the agricultural sector), and those beneficiaries who work and live elsewhere. Thus, for example, a beneficiary analysis for the agricultural sector needs to consider not only the impact of sectoral changes on farmers and farm households, but also on suppliers of agricultural inputs, transport companies, the wholesale processing, and retail trades and urban consumers.

Potential beneficiaries can be characterized by a wide variety of criteria, mostly economic. These include the following:

- 1) Per capita income (or expenditures), on an average basis or distributed by population subgroup;
- 2) Wealth and/or access to resources, including land holdings, ownership of other real and financial assets, intangible assets that provide rents to the holder, and degree of labor availability;
- 3) Health and nutritional status, evidence of malnutrition or disease, magnitudes of nutritional deficiencies, etc.
- 4) Geographic location, agroeconomic and ecological zones, administrative and political regions; etc.
- 5) Relationships to the economy, subsistence vs. commercial production, wage earner vs. enterprise owner, degree of involvement in formal vs. informal sector, etc.
- 6) Socio-cultural variables, ethnicity, religion, language, family size and organization, etc.

It is also essential that the beneficiary group analysis differentiate between men and women, since gender may make a further difference in access to or control resources, social equity, or political power.

## Box 4. Industrial Sector Assessment

In addition to the elements discussed in the general Sector Assessment guidance (Annex 3), Industrial Sector Assessments prepared for particular countries may wish to address the following questions and issues as they relate to the industrial sector:

### Structure

The industry sector can be disaggregated into relevant subsectors in order to both characterize the past performance of these industries and lay the foundation for possible targeting through AID development assistance strategy. In addition to disaggregation by major product classes, the following distinctions may be made:

- role of micro-enterprises
- informal vs. formal sector
- foreign vs. domestic ownership
- dependence on foreign trade for intermediate inputs and destination for outputs.

Analysis of the size distribution of firms and enterprises can help in the identification of sources of sectoral growth and employment, sources of export growth, possible targets for development assistance, etc.

Assessment of production costs and degree of competitiveness is important for selected subsectors, particularly those in the export sector or those which are otherwise sensitive to international market fluctuations. Key aspects of competitiveness which may deserve examination include:

- structure of production costs (labor, capital, intermediate goods)
- wages and profit rates
- financing of production and investment
- product quality
- labor management relations
- types and magnitudes of border protection measures.

### Beneficiary Group Analysis

Distinguish between workers, owners, and managers as beneficiaries; also distinguish by gender, degree of access to resources, etc.

Identify beneficiaries in related sectors (e.g., in upstream and downstream industries) which may be affected by employment and income expansion.

### Constraints Analysis

The macroeconomic and institutional environment may have differential implications for:

- small vs. large firms
- export vs. domestic markets
- public sector vs. private sector production.

Development of the industrial sector is subject to baseline constraints, whose amelioration takes time.

These includes:

- human capital, both managerial and non-managerial
- level, quality and composition of capital stock (both private and public)
- technology
- infrastructure (marketing, transportation, communications, distribution).

Compared to other sectors, how is industrial sector performance differentially affected by fiscal, monetary, trade and exchange rate policies? Does industry receive (intended or unintended) preferential treatment or discriminatory treatment? Are industrial sub-sectors differentially affected by these macro policies and, if so, to what extent?

- Within industry, are some sub-sectors advantaged or disadvantaged by:
- public vs. private ownership and management?
- foreign vs. domestic ownership?
- preferential access to credit and foreign exchange?
- favorable political and/or tax treatment?

A country's legal, regulatory and administrative policies set the environment for industrial activity and growth. To what extent do the following policies and factors affect industrial growth and performance, especially in a differential manner across subsectors:

- costs and regulatory obstacles to business formation
- sources and uses of financing (debt, equity, internal savings, foreign vs. domestic, etc.)
- employment practices
- financial disclosure.

### C. Constraints Analysis

This section should identify and analyze the set of constraints which prevents the potential beneficiary groups identified above from realizing their potential in terms of increased income, productivity and employment. These constraints condition and set limits to what is produced in the agricultural and industrial sectors or provided through the services sector, why, by whom, and how efficiently. The primary constraints which impede economic growth and development vary widely by country, sector, level of analysis (macro, sector, or subsector), and in terms of their potential for elimination. Differences, for example, in policy and institutional arrangements may create environments that are favorable or hostile to small vs. large enterprises production for domestic vs. export markets or production by private vs. public sectors. Accordingly, the analysis should convey the differential impacts of these constraints within each sector, between sectors, and in relation to the macroeconomy and the larger political and institutional environment.

It is, however, possible to categorize many of the constraints which are relevant at the sector and subsector level and which might be included in a sector assessment.

- 1) Physical constraints include those related to the natural environment in which sectors, firms, and people operate. These include such diverse factors as climate, natural resource endowment, prevalence of natural disasters, and geographic location. These factors underlie the determination of competitive advantage in specific sectors and subsectors.
- 2) Access to productive resources and the extent to which this access is limited by natural and institutional/political factors, are often the critical constraints for individuals and firms. Depending on the sector, access may be limited to:
  - land, both due to land quality and land tenure constraints;
  - capital, due to factors such as limited savings, high costs of capital, credit rationing, etc;
  - labor, especially skilled labor, but even unskilled labor on a seasonal basis; and
  - technology.

In addition, access to adequate infrastructure (including roads, ports and shipping facilities, communications, and information) may be a significant constraint in increasing productivity and competitiveness. In the same manner, limited access to public goods, i.e services including educational and training resources, health services, water and sewage, etc. may constrain both economic growth and enhanced human welfare.

- 3) **Market constraints** which prevent the realization of potential economic opportunities are operative at many different levels. The **international market environment** may present constraints relevant at the sector level which are truly exogenous and which dominate all corrective efforts at the sector level for tradeable goods. The individual firm is generally unable, for example, to affect multilateral trade policy and international capital flows. **Domestic market constraints** (closely related to "policy constraints", discussed below) may also represent exogenous, uncontrollable constraints at the sector level, particularly when they stem from macroeconomic policies (fiscal, monetary, and exchange rate policies). **Sector market constraints**, however, such as from output and input price policies, may be endogenous and controllable, when considered within the context of sector development strategies.
- 4) **Human capital constraints** describe the extent to which an inadequately trained and educated labor force (or one that is poorly nourished and/or in poor health) may constrain growth. Human capital constraints related to managerial abilities or inadequacies of private and public sector management may be equally or even more critical in limiting economic progress.
- 5) **Institutional constraints** to sectoral development include the full range of regulatory, legal, judicial, and administrative arrangements and policies which affect enterprises and which result in intra-sectoral differences in the treatment of some firms or activities compared to others. They concern such things as the pattern and speed of business formation, the sources and methods of financing new and expanding firms, employment and environmental practices of firms and organizations, differential treatment of private and public sector organizations, and so forth. Typically, institutional constraints increase transaction costs and thus affect the competitive environment faced by some firms vis-a-vis others, both domestically and internationally.
- 6) **Policy constraints**, like market constraints, are relevant at both inter-sectoral and intrasectoral levels. Inter-sectorally, the policy environment may affect a specific sector relative to other sectors through the operation of monetary, fiscal and trade policies which largely determine the overall competitive situation faced by firms. A country's macroeconomic policies may, for example, discriminate against firms serving export markets versus those serving domestic markets through an overvalued local currency which taxes exports. **Within** the sector, some subsectors may be the recipients of advantageous treatment relative to others. Questions of particular interest may include the treatment of small vs. large firms, public vs. privately-owned industries, and foreign vs. domestically-owned industries.
- 7) **Environmental constraints** represent both limitations on past and current economic activity, as well as guidelines to sustainable growth in the future. Environmental constraints range from the maintenance of water quality to the preservation of natural resources and biodiversity, to the mitigation of air and water pollution. In many cases, solutions to environmental problems mean getting the economic costs of development to fully reflect the costs of environmental externalities.

## **Box 5. Services Sector Assessment**

In addition to the elements discussed in the general Sector Assessment guidance (Annex 3), Services Sector Assessments prepared for particular countries may wish to address the following questions and issues as they relate to the services sector:

### **Structure**

Because of the extreme heterogeneity of the services sector, it is important to examine the sector in a disaggregated manner in measuring performance and developing an assistance strategy. Criteria and indicators that are appropriate to subsectors such as wholesale and retail trade, transportation, finance and insurance, for example, may be inappropriate to basic services such as education, health and sanitary service.

Elaboration of the linkages between the services sector and agriculture and industrial sectors (as well as specific services subsectors) is important, since improved performance in each may be complementary with that in the other. Relieving constraints in supporting service activities, for example, may improve the efficiency, performance and competitiveness of specific industrial or agricultural subsectors.

Some service sector functions may be effectively provided by the private sector (e.g., wholesale and retail trade, transportation, finance, insurance), while others may be most efficiently provided by the public sector (education and sanitation). Other service sector functions which are commonly provided by the public sector (e.g. health services) can often be provided more efficiently if the private sector plays an active role, as it does in most developed countries. For the services sector, A.I.D. has begun to encourage activities that promote the private provision of needed services, particularly those for which there remain significant unmet needs, e.g. health and family planning, education, sanitation, basic transportation and communication.

The services sector of a developing country typically has only a small traded component. As a result, services are less sensitive to international markets and financial fluctuations than other sectors. Missions should explain whatever opportunities exist for international trade in services for a given country.

Different measures of economic structure may need to be employed in the analytical description of different services sub-sectors. Standard quantitative measures may be used to describe the distributive services of wholesale and retail trade and transportation: number

and size distribution of firms, employment, sales, factor costs, market growth, contribution to GDP, etc. For other sub-sectors, particularly those providing basic services, (e.g. health, education, sanitation, etc.) other descriptors may be more appropriate: coverage ratios, size of the unserved "market", quality and quantity of services provided.

### **Beneficiary Group Analysis**

The unique nature of the services sector means that improvements in services provision enhances not only immediate beneficiary groups, but also those groups and subsectors linked to the services sector through its complementary and supportive role to development elsewhere in the economy. Accordingly, it is important to identify, not only the direct beneficiaries of assistance to this sector, but also the indirect beneficiaries in upstream and downstream industries and other services subsectors.

Enhancements in the provision of basic services (water, education, sewerage, health and sanitary services) result in improvements in the underlying long-term productive potential of the economy through enhancing the health and nutritional status of the population, decreasing infant mortality, increasing literacy and human capital, and so forth. These investments in human capital yield widespread benefits which are difficult to measure and are realizable only in the long run, but which are nonetheless crucial to successful development.

### **Constraints Analysis**

The services sector in developing countries, particularly basic services, has tended to be dependent on the ability of the central government to fund those functions. In view of the precarious financial situation faced by many developing countries due to fiscal imbalances, external debt, etc., services provision by government is highly sensitive to austerity policies and other fiscal restrictions.

Country institutional and regulatory constraints may severely limit entry and participation of non-governmental entities in the provision of services, even in basic service segments, such as wholesale and retail trade, transportation, and communications. Opportunities that exist for privatization and competition in services provision should be examined as the services sector assessment is prepared.

#### **D. Opportunities for Improving Sector Performance**

This section should identify the opportunities that exist for overcoming constraints and, more generally, improving performance in the sector in question. This assessment of opportunities should draw on the findings of several, often conflicting analysis; these include: the identification and prioritization of the critical limiting constraints to sectoral growth; an assessment of the host country's development goals, resources, and policies relevant to that sector (and perhaps others); a review of other donor activities and plans; A.I.D. policies and resources; and an assessment of the effectiveness and comparative advantage of A.I.D. in providing assistance to the sector (and subsectors) in question, relative to other donors and sectors.

As part of the process by which A.I.D.'s assistance strategy is developed (see Part V of the main CDSS guidance), the analysis of development opportunities should define, given limited resources, which subsectors could be targeted for intervention and assistance. This requires indepth analysis of specific sub-sectors in the context of the preparation of the CDSS and its sector assessments. It also requires an evaluation of the relative merits of intervention in one or more sub-sectors versus others. In sum, by addressing the above elements, a sector assessment identifies and describes selected opportunities for and constraints to broad-based and sustainable sectoral economic growth.

#### **3. Subsector Assessments**

Subsector reviews are an integral part of the sector assessments detailed above. While they pertain to another, more disaggregated level of economic activity, subsector assessments do not, for the most part, differ conceptually from sector assessments. Questions examined at a sectoral level are germane at the subsector level as well. Detailed subsector assessments help in identifying and prioritizing those subsectors where development interventions are likely to be particularly effective in generating sustainable, broad-based growth. Given limited resources, such intervention is virtually never possible nor efficient at the level of the overall sector, but must be targeted at programs and policies relevant to one or more subsectors. Accordingly, subsector reviews must be undertaken by the mission as part of its effort to understand the broad sector and A.I.D.'s strategy vis-a-vis that sector.

There are no specific guidelines as to how many subsectors should be reviewed in the preparation of a sector assessment nor how much attention a mission should give to a specific subsector in this process. Typically, several subsectors will be given emphasis in a mission's assistance strategy. To support the strategy development process, the mission must broadly examine each sector and a number of relevant subsectors in deciding where to commit its limited resources. Rather than deciding prematurely how A.I.D.'s resources should be allocated, it is appropriate to undertake the three general sector reviews and enough selected subsector reviews to broadly assess the most promising opportunities for action that are consistent with overall A.I.D. goals.

**In allocating time and resources to subsector reviews, missions are advised to consider (a) the size and importance of the subsector to the economy; (b) the significance of opportunities for and constraints to progress within that subsector; (c) A.I.D.'s historical links to the subsector, (i.e., our ongoing programs); and, where appropriate, the U.S.'s comparative advantage as a catalyst for progress.**

**As noted above, supplements to this sector assessment guidance are provided as boxed material in this section (Boxes 3-5). They discuss sector-specific details that are relevant to agriculture, industry, and services, respectively.**

Table A.3.1

SUMMARY OF ECONOMIC SECTORS AND SUBSECTORS  
FOLLOWING THE U.N. ISIC SYSTEM

AGRICULTURE

Major Division 1. Agriculture, hunting, forestry and fishing

11.....	Agriculture and hunting
111	Agriculture and livestock production
112	Agricultural services
113	Hunting, trapping and game propagation
12.....	Forestry and logging
121	Forestry
122	Logging
13.....130	Fishing

INDUSTRY

Major Division 2. Mining and Quarrying

21.....210	Coal mining
22.....220	Crude petroleum and natural gas production
23.....230	Metal ore mining
29.....290	Other mining

Major Division 3. Manufacturing

31.....	Manufacture of food, beverages and tobacco
311-312	Food manufacturing
313	Beverage industries
314	Tobacco manufacturers
32.....	Textile, wearing apparel and leather industries
321	Manufacture of textiles
322	Manufacture of wearing apparel, except footwear
323	Manufacture of leather and products of leather, leather substitutes and fur, except footwear and wearing apparel
324	Manufacture of footwear, except vulcanized or moulded rubber or plastic footwear
33.....	Manufacture of wood and wood products, including furniture
331	Manufacture of wood and wood and cork products, except furniture
332	Manufacture of furniture and fixture, except primarily of metal

**Major Division 3. Manufacturing (continued)**

34.....	Manufacture of paper and paper products, printing and publishing
341	Manufacture of paper and paper products
342	Printing, publishing and allied industries
35.....	Manufacture of chemicals and chemical, petroleum, coal, rubber and plastic products
351	Manufacture of industrial chemicals
352	Manufacture of other chemical products
353	Petroleum refineries
354	Manufacture of miscellaneous products of petroleum and coal
355	Manufacture of rubber products
356	Manufacture of plastic products not elsewhere classified
36.....	Manufacture of non-metallic mineral products, except products of petroleum and coal
361	Manufacture of pottery, china and earthenware
362	Manufacture of glass and glass products
369	Manufacture of other non-metallic mineral products
37.....	Basic metal industries
371	Iron and steel basic industries
372	Non-ferrous metal basic industries
38.....	Manufacture of fabricated metal products, machinery and equipment
381	Manufacture of fabricated metal products, except machinery and equipment
382	Manufacture of machinery except electrical
383	Manufacture of electrical machinery, apparatus, appliances and supplies
384	Manufacture of transport equipment
385	Manufacture of professional and scientific and measuring and controlling equipment not elsewhere classified, and of photographic and optical goods
39.....390	Other manufacturing industries

**Major Division 4. Electricity, Gas and Water**

41.....410	Electricity, gas and steam
42.....420	Water Works and supply

**Major Division 5. Construction**

50.....5000	Construction
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SERVICES

Major Division 6. Wholesale and Retail Trade Restaurants and Hotels

61.....610	Wholesale trade
62.....620	Retail trade
63.....	Restaurants and hotels
631	Restaurants, cafes and other eating and drinking places
632	Hotels, rooming houses, camps and other lodging places

Major Division 7. Transport, Storage and Communication

71.....	Transport and storage
711	Land transport
712	Water transport
713	Air transport
719	Services allied to transport
72.....720	Communication

Major Division 8. Financing, Insurance, Real Estate and Business Services

81.....810	Financial institutions
82.....820	Insurance
83.....	Real estate and business services
831	Owner-occupied dwellings
832	Business services except machinery and equipment rental and leasing
833	Machinery and equipment rental and leasing

Major Division 9. Community, Social and Personal Services

91.....910	Public administration and defense
1	General public services
2	Defense
3	General administration, economic policies and services
4	General administration, health policies and services
5	Administration, social security and assistance
6	Administration, housing and community development policies and services
92.....920	Sanitary and similar services
93.....	Social and related community services
931	Education services
932	Research and scientific institutes

**Major Division 9. Community, Social and Personal Services (continued)**

933	Medical, dental, other health and veterinary services*
934	Welfare institutions
935	Business, professional and labor associations
939	Other social and related community services
94.....	Recreational and cultural services
941	Motion picture and other entertainment services
942	Libraries, museums, botanical and zoological gardens, and other cultural services not elsewhere classified
949	Amusement and recreational services not elsewhere classified
95.....	Personal and household services
951	Repair services not elsewhere classified
952	Laundries, laundry services, and cleaning and dyeing plants
953	Domestic services
959	Miscellaneous personal services
96.....960	International and other extra-territorial bodies

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\* Family planning clinics are found at the four digit level under ISIC number 9331.