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Action Plan

FY 1989-1991

GUINEA

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Agency for International Development
Washington, D.C. 20523

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UNITED STATES ADDRESS:
USAID / CONAKRY
DEPARTMENT OF STATE
WASHINGTON D.C.20520-2110

INTERNATIONAL ADDRESS:
USAID
C/O AMERICAN EMBASSY
BP 603 CONAKRY
GUINEA

March 28, 1989

Mr. Edward L. Saiers
Acting Assistant Administrator - Africa Bureau
Agency for International Development
Washington, D.C. 20523

Dear Larry:

I am pleased to transmit the Mission's FY 1991 Action Plan which sets forth our program and management priorities for the next two years. The Plan reflects a Mission-wide effort, with full participation of all staff. I regarded the exercise as especially timely given the recent arrival of several new staff. We also had a series of discussions and a " think piece" exchange with the Embassy staff during the exercise to make sure the Plan includes their thinking also.

Even though the A.I.D. approach has been exploratory, we have made several major interventions over the past three years. These were rice imports tied to the liberalization and privatization of agricultural trade, an AEPRP program tied to liberalization of the foreign exchange market and credit, local currency and foreign exchange funding for rural roads construction, local currency financing for civil service departures, and commencement of possibly the largest A.I.D. training program in sub-Saharan Africa. Progress to date is gratifying. Nevertheless, more than enough remains to be done in the areas of agricultural market development, including mobilizing of financial resources for agricultural related investment, for us to continue advancement of our program along existing lines. We suggest that any major new departures be made part of our CDSS exercise, which is now scheduled to take place over the coming year.

Given the exploratory nature of our approach in Guinea and the unsettled conditions here, we do not yet have a program in which all the components tie together as neatly as we thought they did in other countries in which I have served. Nor can we say with the same degree of certitude where the program will be two years from now. These will come as our program and our role continue to become more settled. I hope that the Program Week serves as part of that settling process. Another part of the settling process will be our continued efforts to gather and analyze data with the help of our newly arrived staff and consultants as laid out in the management steps and studies parts of the Plan.

I look forward to a very productive Program Week resulting in confirmation of our priorities. I hope to see you there and would be very pleased should you be able, your busy calendar notwithstanding, to participate extensively.

Sincerely,

Byron Bahl

Byron Bahl
Mission Director
USAID/Guinea

Action Plan FY 1989-1991

TABLE OF CONTENTS

GUINEA

	Page
I. PROGRESS REVIEW	1
A. Strategy Recap	1
B. Priority Objectives	1
C. Program Impact Assessment	2
D. Conclusion	5
E. Role and Imact of U.S. Assistance	5
1.Program Assistance	6
2. Project Portfolio	7
3.Implications	8
II. STRATEGIC OBJECTIVES, TARGET, AND BENCHMARKS FOR THE PERIOD MARCH 1989 - MARCH 1991	9
A. Objective: Removing Structural Constraints to Agricultural related Development	10
1. Target: Reduce the budgetary deficit by limiting GOG expenditures on personnel, subsidies to parastatals, an by introducing expenditures controls	10
a. Policy Benchmarks	10
b. Program Benchmarks	10
c. Management Steps	10
2. Target: Reduce the balance of payments deficit through the implementation of reforms in trade and investment policies	11
a. Policy Benchmarks	11
b. Program Benchmarks	11
c. Management Steps	11
3. Target: Increasing the availability and allocation of credit to more productive uses through sector reforms	12
a. Policy Benchmarks	12
b. Program Benchmarks	12
c. Management Steps	12

Page

B. Objective: The Establishment of Competitive Agricultural Marketing Environment Conducive to Increased Trading of Agricultural Goods 13
1. Target: Liberalized input and produce marketing with free and equal access 13
a. Policy Benchmarks 13
b. Program Benchmarks 13
c. Management Steps 13
2. Target: Small enterprises development 14
a. Policy Benchmarks 14
b. Program Benchmarks 14
c. Management Steps 14
3. Target: Rehabilitation and expansion of the road transport network 15
a. Policy Benchmarks 15
b. Program Benchmarks 15
c. Management Steps
4. Target: Greater reforestation and conservation efforts for sustainable agricultural production 16
a. Policy Benchmarks 16
b. Program Benchmarks 16
c. Management Steps 16
5. Target: More efficient and effective public support services to private sector regarding agricultural production and marketing and enterprise promotion 17
a. Policy Benchmarks 17
b. Program Benchmarks 17
c. Management Steps 17

III. MISSION MANAGEMENT 19

A. Resource Management: Plans and Issues 19

1. FY 1989 and FY 1990 New Starts and Delegations Requested 19
2. Tentative Design Schedule 21
3. Tentative Evaluation Schedule 22
4. Tentative Research Schedule 23
5. Women in Development 24
6. PVO Collaboration 24
7. Peace Corps Collaboration 25
8. Gray Amendment 25
9. Donor Coordination 25
10. Personnel and Financial Management 26
11. Local Currency Management 27
12. Pipeline 28
13. Operating Expenses 28

I. Progress Review

A. Strategy Recap

The goal of U.S. assistance to Guinea during the Action Plan period, FY 1989-FY 1991, is to increase agricultural production and trade through the implementation of structural reforms. These actions should, in turn, help set the basis for sustained agricultural growth. A.I.D. chose this direction on the grounds that diversifying the economy and revitalizing agriculture through the removal of policy, credit, and transportation constraints is the most promising short to medium term strategy for promoting income growth and improved equity in Guinea. Two major independent reviews in FY 1988 confirmed this view.

The U.S. assistance strategy gives priority to helping the Government of Guinea (GOG) to: (1) conceive and implement policy reforms oriented toward market liberalization; and, (2) create a competitive market environment.

Our CDSS policy agenda focuses on the: (1) maintenance of market determined prices for production inputs and producer goods; (2) continuation of banking sector reforms as a means to enhance private sector access to credit to finance agricultural enterprises and rural trade; (3) elimination of the role of agricultural parastatals, including the privatization of agricultural inputs distribution; and, (4) liberalization of cereals marketing, particularly as it concerns rice.

Our assistance portfolio combines foreign exchange, local currency counterpart funds, and food aid. These finance technical assistance, human resources development, and the implementation of policy reforms through: (1) program assistance in the form of an AEPRP grant to the foreign exchange auction and food aid to the rice market, and (2) project assistance for rural enterprise development, rural transport network rehabilitation, public sector reform, natural resouces mnagement issues, training, and child survival. The program moves towards its ends by promoting private sector production and marketing, improving the efficiency of human resources, and expanding and consolidating the structural reform program.

B. Priority Objectives

For the purposes of clear delineation of benchmark indicators, improved measurability of performance indicators, and simplification of tracking, USAID/Guinea essentially seeks to achieve two basic objectives: (1) clear the way for a dynamic market economy through liberalization oriented reforms and through reduced government presence; and, (2) establish an increasingly competitive environment for the trading of agricultural commodities.

1. Clearing the way for a Dynamic Market Economy

A dynamic market economy requires a sustainable balance of payments account position. We are helping the Government of Guinea to accomplish this by subjecting the foreign exchange market system to free market forces focused on productive endeavors and through intermediate to long-term structural reforms related to the role of government and the contribution of agriculture to the economy. Such structural reforms are centered, to a large extent, on a reduction in the role of the public sector, with a concurrent expansion of the private sector's role in production, marketing, and pricing decisions, and targetted strengthening of public sector services to support private sector development in agriculture.

USAID/Guinea's principal macroeconomic policy targets therefore include: (1) reducing the budgetary deficit by limiting government expenditures on salaries and subsidies to parastatals; (2) reducing the balance of payments deficit through the implementation of reforms in trade and investment policies; and, (3) increasing the availability and allocation of credit to more productive areas through the execution of banking sector reforms.

2. The Establishment of A Competitive Agricultural Marketing Environment Conducive to the Increased Trading of Agricultural Goods.

The interim objective of U.S. assistance to the agricultural sector is the development of more broadly based trade in agricultural inputs and produce through the establishment of competitive market conditions. This is to be accomplished by encouraging: (1) liberalized input and produce marketing with free and equal access; (2) small enterprise development; (3) rehabilitation and expansion of the road transport network; and, (4) greater reforestation and natural resource management for sustainable agricultural production.

C. Program Impact Assessment

The overall progress toward the achievement of USAID/Guinea's priority objectives has been mixed. One the one hand, the scope and comprehensiveness of the reform program is impressive. The GOG's pursuit of certain difficult measures, such as reductions in the civil service, has been dogged, and the extent of some measures, such as the tax increases, has been striking. These reforms go far toward eliminating the economic distortions and bottlenecks resulting from the First Republic's policies. On the other hand, many of the reforms have served only to create the instruments fundamental to a modern economy, e.g. a functioning banking system.

The GOG has yet to allow these instruments to work to full economic advantage and thus set the basis for sustained growth. Examples include:

the foreign exchange auction system, in reality a foreign exchange fixing, which does not allow the GF to quickly adjust to maintain its real value and does not allocate resources based on economic criteria;

the GOG's continued intervention into the rice market with regards to consumer prices, its periodic purchase of rice, and its holding of security stocks in Conakry, which weakens the confidence of private importers in the reform program;

the Central Bank's continued interventions and openings of letters of credit for rice imports which increases rice imports without regard to supply and demand conditions and unnecessarily absorbs scarce foreign exchange;

the delay in liquidating state industrial enterprises which weakens private investor confidence in the GOG's willingness to implement its announced reforms; and,

credit policies that provide incentives to short-term lending for consumption or the transfer of funds overseas rather than to riskier, but more beneficial to the economy, medium to long-term productive investment lending.

Our assessment of the status of the macroeconomic and sectoral target areas directly pertinent to our program is as follows:

1. Real Per Capita Growth. Real per capita growth has been substantial since January 1986 when the GOG embarked on its structural adjustment program. After a real growth rate of 2.3 per cent in 1986, the economy grew at 5.9 per cent in 1987 with preliminary estimates of 5.5 per cent growth in 1988. Growth per capita was largely positive in both 1987 and 1988 at 3.1 and 2.7 per cent respectively. Even with an annual population growth rate of 2.8 per cent, Guinea is projected to continue positive per capita growth rates over the next several years.

2. Budget. The GOG enacted a new budget law (March 1988); sharply increased major taxes (petroleum and customs); set performance targets that would maintain expenditures at about 20 per cent of GDP through 1992; and, with foreign technical assistance, has set about implementing improved financial management procedures. Implementation of the new procedures lags behind schedule, however, and expenditures for 1988 were 30 per cent over projections. This translates into a 1988 budgetary deficit of at least $ 110 million, or three times the projections and equal to 42 per cent of revenues. While revenues also ran ahead of projections in 1988, procedural and staff weaknesses continue to make collections problematic.

3. Balance of Payments. Rather than using a foreign exchange

auction to clear transactions at market rates, the GOG has chosen to allow arrears to build-up against external debt payments in order to supply all current demand for foreign exchange at weekly fixed rates. The GOG justifies this approach as a short term measure to avoid a continued process of massive devalutions which would fuel higher inflation rates. It has been helped in this effort by a further improvement in its already positive trade balance, caused by increased earnings from bauxite exports. Nevertheless, the overall balance, including services, remains negative and the financing gap is expected to grow as the GOG moves to address arrears, bauxite prices moderate, and payments against the large debt, contracted prior to 1986, continue to fall due.

4. Banking Sector. The reform of the banking sector, begun in late 1985, led to the closure of the six bankrupt state banks, the opening of three, French managed, private ones, and the continued, but revitalized, operation of one Islamic Bank established in 1983. The initial goals of the sector's reform, the rapid and successful completion of currency exchange, the redirection of commerical activities through official channels, and an increase in credit available to the private sector, were achieved. However, the goal of mobilizing domestic resources for investments in productive endeavors has not been attained.

Private sector demand for credit continues to exceed greatly the capacity of the banks to mobilize the necessary financial resources. This situation is due, in large part, to the maintenance of an interest rate structure on local currency accounts that is negative in real terms. This and the Central Bank regulatory practices favor holding of foreign exchange rather than making investment loans and thus places places additional pressure on the exchange rate. These rates and practices also help explain why almost all bank lending is concentrated on short-term loans to finance the import of consumption goods, chiefly food and construction materials.

5. Cereals and Other Agriculture. Agricultural production has increased rapidly in response to the initiation of the reform program. Farmers have expanded the areas under cultivation and the marketing of various crops. This has not been immediately translated into an improved balance of payments situation, however, as increased incomes have led to a growth in the demand for and consumption of imported rice. From an average of 95,000 MT, all intended for Conakry between 1983 and 1985, rice imports increased to an average of approximately 148,000 MT, between 1986 and 1988. Population growth was a factor, so was increased demand for imported rice outside of Conakry. The increased demand was met in part by the U.S. assistance program, now on a grant basis, which assured the availability of the commodity throughout the year. As production increases, a gradual decline in rice imports and the need for food aid should ensue.

The production and marketing of export crops rose dramatically with domestic supplies responding quickly and positively to increased producer prices in 1986. Official exports of coffee doubled in one year with official exports for other cash crops recording similar results. Growth in cash crop exports is hindered, for coffee, by Guinea's small market quota, and for other crops by its loss of market share and increased competition from other exporters.

Both the rice and agricultural inputs markets have been opened to private enterprise. The rice market has developed a strong and vibrant trading sector with numerous participants. Although the danger of potential manipulation exists, over twenty traders have entered the market, resulting in competitive prices and adequate supplies.

Demand for agricultural inputs remains restrained and is the major limiting factor determining the size of the market. It will take several years of concentrated effort to develop a fertilizer market. Two private firms distribute agricultural implements but fertilizer sales, outside of donor supported projects, remain extremely limited. The two remaining parastatals, AGRIMA and SEMPAE, play only a passive role in the market.

D. Conclusion

Guinea's economy has clearly benefited from economic liberalization. Present problems are largely those of implementation and will take time as people are trained to cope with and operate in the new environment. Although the benefits of the reforms are already visible, in terms of positive economic growth, the implementation of the reform program, to date, shows the need to continue to consolidate, internalize, and deepen the GOG's understanding and acceptance of the structural adjustment process. The real success of the program has been the significant increase in consumption throughout the country. Consumer goods, not previously found, are now available, increasing consumption and giving rise to the expansion of the monetarization of production to enable farmers to purchase them. This is both a sign and a result of the revitalization of the economy. Unfortunately this increase is externally (donor) financed, often by loans, albeit on concessional terms. Unless the GOG can increase its productive investments through better management of its public investment program, begin to curtail domestic corruption, and attract investment capital as well as generate and productively channel its domestic resources, the mid-1990's will see the Guinean economy in need of ever increasing amounts of foreign assistance.

E. Role and Impact of U.S. Assistance

U.S. assistance, since late 1985 has concentrated, through

program and project assistance, on efforts to support the implementation of the structural adjustment process. Selection of individual interventions has been evolutionary rather than the result of the unfolding of a comprehensive program conceived at the outset of the period. As a result we have had a flexible assistance program capable of responding, with financial and technical help, as immediate needs arose.

1. Program Assistance

The major achievement of the USAID/Guinea assistance since FY 1986 is the use of its food assistance program to obtain significant liberalization and competitiveness in the importation and marketing of rice. Our increased food aid levels coincided with the beginning of the GOG's reform program. The combination of Food for Progress, Title I, and Section 206 rice programs provided since the end of 1985 have directly contributed to the maintenance of the short-term economic and social stability that is necessary to enable the structural adjustment process to continue.

Food assistance comprises an important part of the total U.S. program not only in terms of the percentage of total assistance provided but also in its ability to impact on key areas of the Mission's strategy. During the past three fiscal years (1986-1988), food assistance represented, on the average in dollar value, 54 per cent of our total assistance. It provided increased leverage for the U.S. in its policy reform negotiations with the GOG on the implementation of reforms. At the same time, our rice permitted the GOG to save scarce foreign exchange and helped assure steady supplies during the transition from GOG controlled distribution to private sector rice importing and marketing. The Self-Help Measures directly promoted the liberalization of rice imports and distribution; the elimination of consumer subsidies on rice; the improvements in the collection and programming of counterpart funds; the elimination of the GOG's public sector food rationing program; and, the improvement in port security.

The sales procedures included in the agreements required increasing amounts of market determination of prices and competition in rice distribution. This culminated in FY 1988 in the agreement, subsequently honored by the GOG, to distribute and establish the transfer price of U.S. food assistance rice via an auction system.

While the increased availability of imported rice, at prices lower than those for domestic varieties, may have slowed the rate of increase of local production, the improved policy climate and increased liberalization of prices and marketing resulted in the growth in the share of domestic production. Further increases in the share of domestically produced rice will be linked to the elimination of the implicit subsidy to rice imports resulting from the tax exonerations, improvements in the transport and marketing

networks, and eventual increases in productivity from access to improved technology.

A $10 million AEPRP program was initiated in FY 1986 to support the structural adjustment program with primary emphasis on the liberalization of private market operations in rural areas. In conjunction with the World Bank and IMF programs, the AEPRP focused on removing the restrictions on the private sector's right to engage in all aspects of rural commerce, including the purchase and sale of agricultural commodities and the provision of agricultural inputs, with the GOG ceasing all activities in these areas, to create and develop viable agricultural markets. It also sought significant changes in credit policy to channel more to the rural sector and in the legal system to foster the development and expansion of private investment and commerce.

The AEPRP program has been only partially successful. Its privatization conditionalities were linked to those of other donors and were vulnerable to changes in other donor priorities for reform emphasis. Changing GOG priorities as well as its slowness in implementing the required measures lessened the impact of the conditionalities and precluded the economy from attaining the full benefit of the reforms. Several concrete moves were made, however, and the first tranche, $5 million, was disbursed in FY 1987 when the GOG met the initial conditionalities aimed at eliminating agricultural production input subsidies, decontrolling agricultural prices, and developing a time-table for the disengagement of the state from the sale and production of these commodities.

We are now discussing with the GOG the remaining unmet conditionalities, related to the closure of state agricultural inputs import and export crops marketing enterprises, and the methods and procedures for the implementation of the complementary local currency private sector line of credit. The GOG has proven to be unable or unwilling to meet the remaining conditions, in part because of the vested interests that will lose access to cheap production inputs, and, because of the lack of enforcement of this condition by the World Bank, the lead donor on this point. As the amount remaining, $ 5 million, is not sufficiently large to overcome resistance to quick action, A.I.D. will soon have to come to judgement whether enough supplementary effort can be mustered or whether we should divert our efforts.

Project Portfolio

We reduced and realigned our project assistance portfolio in FY 1986 to better support the achievement of our strategy objectives and the implementation of the reform program. Our current projects include the Economic Policy Reform Support Project, obligated in September 1986, which aims to provide the technical assistance necessary to enable the GOG to meet the conditionalities to our

AEPRP program and to continue the implementation of its reform program; the Human Resources Development Assistance project, and its predecessors, which finances training in the skills needed by the public and private sectors in the development of the Guinean economy; and, the Agricultural Infrastructure grant, obligated in August 1988, which co-finances, with the World Bank, the rehabilitation and construction of a 104 kilometer section of the road linking Conakry to an agriculturally productive coastal region. Implementation of this project is being delayed pending the establishment of a road maintenance fund as required under the terms of the World Bank project.

Implications

The objectives in our June 1987 CDSS guidance cable remain valid. The activities that are evolving have contributed significantly to the achievement of those objectives and give promise of continuing to do so.

Specifically, we are well along the way to putting into place a flexible combination of activities in support of agricultural related market development, a core component of the economic reform program and a sine qua non of continued restructuring and sustainable economic growth for Guinea. We are also well along toward playing an important supportive role in meeting a second sine qua non, that is, helping the GOG develop the processes for mobilizing finances, directing their application, and controlling its expenditures.

Adjusting certain current practices and conditions is of immediate concern to us. Continued implementation of interest rate and foreign exchange policies that support foreign exchange use for consumption over investment; continued delay in achieving control over budgetary expenditures and revenue collection; and, continued impediments to the provision of full production incentives dissipates our resources and deprives us of opportunities. Development of a dynamic market economy and the establishment of a competitive environment is contingent upon the GOG's ability to finance sustained investment and recurrent expenditures. It is also contingent upon private sector confidence in freedom from arbitrary intervention in economic activities. These are medium to long term implementation questions and ones we are in a position to address.

Our experience of the past few years demonstrates the importance of having the right combination of flexibility, consistency, and stability. We need enough of a combination of activities so that when one of them is being held in abeyance we can move foreward elsewhere. We need to be consistent and stable enough so that the GOG and other donors can count on us and so that we can develop a known role and thus establish the basis for dialogue. Our shifts of the past few years have done much to redirect our efforts to core

economic restructuring problems but they have also left us coming in after the fact and on the periphery in some instances. They have also left a residue of resentment and distrust within certain ministeries.

Therefore, continuing the themes we are now following, we will have to be more consistent and selective in the establishment of future conditionalities, gain a better understanding of the economy, and figure out ways of increasing actual resource flows - all toward adding impetus and direction to reform and playing a more constructive role in the donor community. The following Action Plan, with its refined focus, priorities, and benchmarks, is our first step in that regard.

II. Strategic Objectives, Targets, and Benchmarks for the Period March 1989-March 1991

Our Action Plan policy setting focuses on addressing Guinea's economic imbalances through the realignment of relative prices. It will do this by furthering privatization of marketing arrangments so as to alter the implicit and explicit taxation of agriculture. The aim is to increase and expand production rapidly and thus attain surpluses of export crops and import substitution cereals. This should mean a corresponding reduction in the current account. The objectives, targets, and benchmarks for this period are centered on policies affecting government revenues and expenditures, aggregate demand, relative price, and income transfers.

II. STRATEGIC OBJECTIVES, TARGETS, AND BENCHMARKS FOR THE PERIOD MARCH 1989 - MARCH 1991

A. OBJECTIVE: Removing Structural Constraints to Agricultural Related Development.

1. Target: Reduce the budgetary deficit by limiting GOG expenditures on personnel, subsidies to parastatals, and by introducing expenditure controls

Policy Benchmarks	Program Benchmarks	Management Steps
(1) Fiscal policy under control through demonstrated ability to limit expenditures to 20 percent of GDP per PFP.	(1) Implementation of reduction in numbers of civil servants continues	(1) Commerce quarterly dialogue meetings and periodic donor coordination meetings on budget issues
(2) Reduction in sudsidies to parastatals	(2) Preparation and approval of annual consolidated budget including O.E. and PIP	(2) Provide budget support to reduce government arrears under PL 480 and agricultural sector grant
	(3) Expenditure control mechanisms in place to monitor budgetary and extra budgetary expenditures at all stages and to insure ceilings are respected.	(3) Monitor implementation of reduction of subsidies to parastatals and closure of agricultural parastatals under AEPRP
	(4) Implementation of GOG Procurement Code as it involves using private contractors for construction projects.	(4) Provide U.S. technical assistance first under ERPS and then under Ag. Sector Grant to help with expenditure controls in selected ministries.
		(5) Follow-up on progress for voluntary departure program-monitoring number of departing civil servants and use of severance fund.

A. (Continued)

2. Target: Reduce the balance of payments deficit through the implementation of reforms in trade and investment policies

Policy Benchmarks	Program Benchmarks	Management Steps
(1) Maintenance of the foreign exchange rate system without any restrictions on current transactions - to include elimination of informal barriers, e.g. as delays in processing paperwork.	(1) Balance of payments deficits on current account reduced from $107.8 million to less than $90 million in three years.	(1) Commence quarterly policy dialogue meetings and periodic donor coordination meetings on BOP issues.
(2) Reduced Central Bank Interventions in the issuance of letters of credit for rice imports.	(2) Debt rescheduling and system of more prompt foreign debt repayment in effect.	(2) Annual food assistance agreement signed, including package of self-help measures; terms of agreement met
(3) Elimination by Central Bank of build-up of arrears.		(3) Release second tranche of foreign exchange under AEPRP
		(4) Provide one long term advisor to help Central Bank with BOP statistics.
		(5) Continue regular in-house USAID monitoring and reporting on foreign exchange movements.

A. (Continued)

3. Target: Increasing the availability and allocation of credit to more productive uses through sector reforms

Policy Benchmarks	Program Benchmarks	Management Steps
(1) Flexible positive interest rate policy to mobilize domestic savings and channel them to productive investments.	(1) Credit available for private marketing and processing enterprises	(1) Policy dialogue continues under AEPRP (675-0217) to assure compliance with with reform conditionality and credit policy implications.
	(2) Commercial and Investment codes in place which are consistent and which assure equitable access to all segments of the private sector	(2) Continue studies of obstacles and possibilities of mobilizing domestic and foreign private financial resources for productive investment.
	(3) Unbiased judicial system actively and fairly enforcing existing legal codes.	(3) Provide one long term advisor to Central Bank to help oversee commercial bank policies and operations.
		(4) Explore use of AEPRP related local currency to finance private sector construction of bonded warehouse facilities for export cash crops.
		(5) Monitor use of private sector credit.

B. OBJECTIVE: The Establishment of Competitive Agricultural Marketing Environment Conducive to Increased Trading of Agricultural Goods

1. Target: Liberalized input and produce marketing with free and equal access

Policy Benchmarks	Program Benchmarks	Management Steps
(1) Implicit import subsidies eliminated	(1) Increased private activity in the import and use of agricultural inputs.	(1) Arrange to sell food assistance rice through procedures corresponding to to market realities. Annual food assistance agreement signed. Measures tending to liberalize rice trade agreed to as self help measures.
(2) Wholesale prices of food and input imports reflect international prices, transport and handling costs, and reasonable profit.	(2) Food imports handled exclusively through private channels.	(2) Monitor private activity in the import and use of agricultural inputs using MARA's ag. statistical data base and and through separate studies.
	(3) Central Bank not issuing letters of credit for commercial rice imports.	(3) Through separate studies gather data on ag. marketing, quantity and nature of crops transported, availability of storage facilities, costs of transport
	(4) Market determination of allocation of coffee export quotas and other import and export licences system aimed at free and most economically efficient operations.	(4) Gradual reduction of U.S. food assistance results from increased domestic production and marketing.

B. (Continued)

2. Target: Small enterprises development

Policy Benchmarks	Program Benchmarks	Management Steps
(1) A complete privatization program in place.	(1) TA, study tour, training sessions and private sector promotion organizations/ support groups available for private sector managers and entrepreneurs.	(1) HRDA project (698-0463.75) implementing a private sector program of entrepreneurial training, study tours, and strengthening of local training institutions.
(2) Reduction or elimination of monopolies.	(2) A coordinated and supportive role by the Chamber of Commerce, CNPIP, PME and other organizations facilitating linkages between private sector managers and growth opportunities. The organizations are providing focal-point opportunities for interested members of the business community to air common problems and seek united solutions.	(2) Implementation of the Rural Enterprise Project (675-0215) with elements of TA and training in enterprise development and management.
		(3) HRDA (698-0463.75) providing technical assistance and development support to local training institutions and local private sector promotion organizations such as CNPIP, Chamber of Commerce, and PME.
		(4) HRDA project (698-0463.75) continues implementation of elements developing the Private Sector Avisor Board, and facilitating discussions between the business promotion organizations.

B. (Continued)

3. Target: Rehabilitation and expansion of the road transport network

Policy Benchmarks	Program Benchmarks	Management Steps
(1) Establishment of a Road Fund to finance road maintenance and spot improvements within regular annual GOG OE budget.	(1) Selection of priority farm-to-market (F/M) roads for rehabilitation within a national program identifying means of execution and timetable.	(1) Implement activities under Ag Sector Grant addressing F/M constraint to agricultural marketing.
(2) Road construction projects financed with local currency carried out in in accordance with Procurement Code.	(2) Maintenance plan for farm-to market road network established, as well as identification of source of national funding.	(2) Coordinate USAID-funded F/M activities with Ministry of Transport and Public Works to help assure their support and technical input into the MARA-implemented program.
	(3) Selected impact surveys and and evaluations following the use patterns and economic impacts of the F/M network	(3) Recruit a USDH Engineer or PSC Engineer to help USAID implement the F/M element
	(4) National highway system being upgraded as scheduled in the National Highway Plans.	(4) Monitor completion of road section funded by USAID under the Fourth Highway Project of the World Bank.
	(5) Rehabilitation of F/M roads progressing according to program time table.	(5) Continue use of counterpart funds finance road construction, with the individual projects publically bid.
	(6) Establishment of internationally recognized road construction specifications.	

B. (Continued)

4. Target: Greater reforestation and conservation efforts for sustainable agricultural production.

Policy Benchmarks	Program Benchmarks	Management Steps
(1) Establishment of national natural resource conservation and management policy.	(1) A valid natural resource management (NRM) approach developed appropriate for Guinean physical and cultural context.	(1) Implementation of NRM project 675-0219 with strong coordinated approach of of technical services including water and forests, hydrology, and agricultural research developing socially and economically suitable technologies for NRM rehabilitation
	(2) National Agricultural Research Institute fully integrated into the development of NRM solutions and approach for Guinea	(2) Training, study tours, and in-country country seminars under HRDA project (698-0463.75) to strengthen technical capabilities, broaden awareness of of problems and solutions of environmental responsibilities in Guinea
	(3) Degraded acidic soils being rehabilitated	(3) MARA Ag statistics section strengthened under Ag Sector Grant quantifying agricultural production and marketing
	(4) System for regenerative, sustainable agriculture developed with potential for supplanting slash and burn practices.	(4) Remote sensing techniques initiated under NASA-funded program with University of Arizona being applied by by MARA to quantify rehabilitation rate
		(5) Review forestry and conservation policies for adequacy
		(6) Undertake periodic studies to monitor state of soil rehabilitation and reforestation, including number of farmers using improved techniques, extend of replanting, etc.

B. (Continued)

5. Target: More efficient and effective public support services to private sector regarding agricultural production and marketing and enterprise promotion

Policy Benchmarks	Program Benchmarks	Management Steps
(1) MARA policy and strategy continues to be geared to private sector development of agricultural sector. This includes elimination of MARA supported parastatals and completion of staff evaluation and training process	(1) Effective financial, administrative, and program controls operating at MARA	(1) Continuation of existing NASPAA contract under Project 675-0218, and eventual folding into the Ag Sector Grant of these type services for financial and management assistance to MARA
	(2) An operating Agricultural Statistics unit at MARA collecting and analyzing data including yields, production, areas, and marketing.	(2) Implementation of full range of the Ag Sector Grant 675-0220 including policy dialogue and institutional strengthening component.
	(3) MARA incorporating services to private sector as these needs are demonstrated (i.e. quality standards, meteorogical data/analysis, pesticide standards, etc.	(3) Coordination with other donors in agriculture as well as Wordl Bank
	(4) Targeted ministries are actively supporting personnel attendance in career development and training programs, accompanied by follow-up support	(4) Training in Agricultural Statistics under HRDA 698-0463.75
	(5) Qualitative difference in personnel performance observed	(5) Studies carried out to help determine full range of private sector needs from those of the public sector in agriculture

B. (Continued)

5. Target: More efficient and effective public support services to private sector regarding agricultural production and marketing and enterprise promotion

(Continued)

Policy Benchmarks	Program Benchmarks	Management Steps
		(6) Study tours and catered training for top-level decision makers as part of HRDA project (698-0463.75)
		(7) Public sector mid-level management training and strengthening of local training institutions under HRDA project (698-0463.75)
		(8) Study tours and targeted training provided under HRDA project 698-0463.75, Economic Policy Reform Support (675-0218), and Ag Sector Grant (675-0220)

III. Mission Management

Resource Management - Plans and Issues

FY 1989 and FY 1990 New Starts and Delegations Requested

A. Project Title and Number: Rural Enterprise Development (675-0215)

Appropriation: Development Fund for Africa

Proposed Obligation ($000): FY 1989 $1,000

Project Description: The project is designed to provide training and assistance to small scale enterprises in rural Guinea. This project, to be executed by U.S. PVOs and cooperatives, will serve as a pilot effort in this area. Its major component is the provision of targetted training in private enterprise development and directed business and production services.

Major Design Issues: The Mission foresees no major design issues.

Delegation of Approval: PID and PP approval by AID/W.

B. Project Title and Number: Natural Resources Management (675-0219)

Appropriation: Development Fund for Africa

Proposed Obligation ($000): FY 1990 $2,500

Project Description: The project is to address adverse environmental developments that have reduced agricultural productivity. Recent economic and policy reform in Guinea are revitalizing the agricultural sector and rapidly increasing the demands placed on the natural resource base. This project, therefore, is designed to address those adverse environmental developments that are reducing agricultural productivity and contributing to deforestation.

Major Design Issues: The major issue is the extent to which we retain the pilot area development activity envisioned by the August 1988 Assessment Team as opposed to a more policy oriented, headquarters focused approach.

Delegation of Approval: PID and PP approval by AID/W.

C. Project Title and Number: Agriculture Sector Grant (675-0216)

Appropriation: Development Fund for Africa

Proposed Obligation ($000): FY 1990 $4,500

Project Description: The project will assist the GOG in the implementation of further strategies to stimulate economic growth in the agricultural sector. The assistance will consolidate the economic liberalization measures already in place; encourage the increased participation of the private sector in production and marketing, including transport and the contruction and rehabilitation of rural roads; and, facilitate the development of coherent food policies for the attainment of food self-reliance. The grant includes technical assistance to the Ministry of Agriculture and Animal Resources (MARA) in policy analysis, financial planning, and management.

Major Design Issues: Concern has been expressed as to whether or not assistance to the agricultural sector is oversubscribed. USAID/Guinea believes the proposed sector grant, with its focus on the institutional development of selected sections of MARA and rural roads construction and rehabilitation, complements other activities by filling a gap in technical assistance and financial resources and in no way overburdens or repeats support provided by other donors.

Delegation of Approval: PID and PP approval by AID/W.

D. Project Title and Number: Agricultural Diversification Support Sector Grant (675-0221)

Appropriation: Development Fund for Africa

Proposed Obligation ($000): FY 1990 None

Project Description: To assist the GOG to continue its financial reform efforts, to help reduce balance of payments gap, and to direct financial resources into agricultural production and trade. The assistance is based on the assumption that the GOG will continue to implement appropriate reform policies. It will reinforce other donor efforts to overcome continuing financial sector problems while stengthening competition within the sector and increasing the allocation of domestic resources to medium and long-term productive investments. A cash transfer grant to the foreign exchange auction is proposed, tied to further progress in the implementation of financial sector related reforms.

Major Design Issues: The GOG initiated major reforms of the banking sector in the fall of 1985. These reforms were aimed at the establishment of a modern, competitive, and solvent system capable of assisting the development of trade and industry in Guinea. Other donors, most notably the World Bank and the French, have provided financial and technical assistance to support the banking sector reform process. The reforms resulted in a significant increase in commercial activities in Guinea since 1986 with the banks taking the lead in providing short-term commercial credits for imports and assistance to traders in the export of cash crops. However, little

in the way of medium to long-term lending has occurred with almost none to the agricultural sector. In addition, the banking system, due to an increase in non-collectible debt, may soon face illiquidity on the part of some of its members. Little progress has been made to improve the mobilization of domestic resources for investments in Guinea. Credit allocations remain too concentrated on financing immediate consumption goods and activities. Finally, the increased tying of the commercial sector to France limits Guinea's options for goods and services and defeats the goal of increased competition in the financial sector. USAID/Guinea, through parallel financing with the World Bank's second technical assistance project, using funds from the Economic Policy Reform Support project (675-0218), will provide technical assistance to help the Central Bank regulate the banking sector. Additional assistance is needed if the goals of the sector's reform are to be achieved. Investment in the agricultural sector, particularily in domestic rice production and increased exports of cash crops, is critical to address Guinea's balance of payments problem and to promote the growth and diversity of the economy. The Bureau has to face the issue of tackling one of the major constraints to the development of agriculture in Guinea, if the U.S. is to be a major player in the agricultural sector.

2. Tentative Design Schedule

A. CDSS

Studies: FY 1989 and first quarter FY 1990

Design: Second quarter FY 1990

Submission: Third quarter FY 1990

B. Rural Enterprise Development (675-0215)

Studies: FY 1988

PID: Design in the first quarter of FY 1989

RFP: Small project design proposals in the third quarter of FY 1989

PP: Design in the fourth quarter of FY 1990

Obligation: First quarter of FY 1990.

C. Natural Resources Management (675-0219)

Studies: FY 1988

PID: Design in the third quarter of FY 1989

PP: Design in the third quarter of FY 1989

Obligation: First quarter of FY 1990.

D. Agriculture Sector Grant (675-0216)

Studies: FY 1988 and FY 1989

PID: Design in the first quarter of FY 1990

PP: Design in the second quarter of FY 1990

Obligation: Third quarter of FY 1990.

E. Agricultural Diversification Support Sector (675-0221)

Studies: FY 1989 and FY 1990

PID: Design in the second quarter of FY 1991

PP: Design in the third quarter of FY 1991

Obligation: Early in the fourth quarter of FY 1991.

3. Tentative Evaluation Schedule

FY 1989 Schedule

Food Assistance. Second Quarter. This evaluation will assess the impact of the U.S. food assistance program on the GOG's rice import, price, and private sector marketing policies and make recommendations on commodity options and Self-Help Measures for future programs.

CCCD (698-0421). Third Quarter. The evaluation will review the impact of the project through the benchmark indicators and outputs as planned in the extension including vaccine coverage, ORT and malaria treatment and user fee practices in the project area.

Impact of U.S. Assistance. Fourth Quarter. In addition to the standard program and project input and output evaluations, USAID/Guinea plans to finance an assistance impact assessment. The impact assessment will review the U.S. assistance portfolio since the initiation of the GOG's economic reform program, particularly the AEPRP and food assistance segments, to assess the impact of the program and its conditionalities on structural adjustment and reforms in Guinea. The assessment will also contain recommendations for future assistance directions for consideration in the design of the full CDSS in FY 1991.

FY 1990 Schedule

Agriculture Infrastructure Development (675-0213). Fourth Quarter. The first in a series of socio-economic impact studies of the construction and rehabilitation of the Dubreka to Kolaboui road will be initiated. The studies will assess the effects of the road on the farmers, fishermen, traders, and small entrepreneurs, especially women, in the areas of income and employment generation and access to health services.

AEPRP (675-0217). Second Quarter. An assessment of the program, the conditionalities, and the impact on the economy of the dollars provided and the implementation of the reforms will be conducted. The lessons learned will be incorportated in the design of a follow on AEPRP proposed for FY 1991.

4. Tentative Research Schedule

USAID/Guinea proposes to conduct research in the following areas to develop a better understanding of the Guinean economy, the constraints hampering its development and the possible areas of intervention for U.S. assistance. Many of these studies are to be used as background materials for the design of the CDSS and the proposed sector grants.

Macroeconomic studies will be conducted to identify the contraints to growth, development, and diversification in the Guinean economy. The Mission plans to fund an update of the study of the GOG budget decision-making process in order to: (1) better understand how this works in order to improve the technical assistance provided to the Ministry of Agriculture and Animal Resources in the area of financial management; and, (2) shorten the delays in obtaining counterpart funds for our development projects. The aim of the studies is to gather sufficient information to help improve the quality of public sector expenditure decisions. Studies of the financial sector will be commissioned to assess the remaining constraints to increased medium to long-term lending to the private sector, including an analysis of the legal framework for land tenure and other forms of collatoral. A study of the knowledge, traditional attitudes and practices of the use of collatoral and other guarantees as currently practiced in Guinea will also be financed.

Further studies on food policy, including the question of the need for a security stock, the impact of imported rice on domestic production, and the effects of the reform program on nutritional standards in urban areas will also be conducted. An agricultural sector assessment will be completed to update our knowledge of this sector and to lay the framework for the proposed sector grant. In conjunction with the Ministry of Agriculture and Animal Resources, an agricultural marketing study will be undertaken to determine the seasonal flows, patterns, and costs of this in Guinea. A private sector needs assessment will be conducted to determine possible

areas, if any, for future U.S. assistance interventions. A human resources needs assessment will be conducted to explore the education sector, especially non-formal, adult literacy, and vocational training, to identify possible means for U.S. assistance interventions. The results of this assessment will help the Mission to decide whether or not to go forward with a basic education project in FY 1991.

5. Women in Development

USAID/Guinea has recently completed its WID Action Plan. Throughout its program and project designs, the Mission seeks to increase the participation of women in the mainstream of development activities in Guinea. Most of the U.S. assistance portfolio is concentrated on expanding the role of the private sector in the economy. The focus on agriculture, where women play a major role in the cultivation, harvesting, and processing of food crops, enables the Mission to have a direct impact on the majority of Guinean women. Women and children are the prime targets and beneficiaries of the CCCD project. They are included in our efforts to develop small enterprises, particularily in rural areas. Increased participation by women in the economy is targetted in our growing human resources development assistance. Because they are so targetted, opportunities are opened for them in both the public and private sectors to have greater access to resources and to play a more active role in the control of their lives. The Human Resources Development Assistance project has as its goal that 35% of the participants will be women. The Mission has as its goal to exceed this target with special emphasis on training women entrepreneurs.

Further analysis of gender issues, including constraints, will be undertaken during the development of new U.S. assistance. Strategies for increasing women's participation will be developed during the CDSS scheduled for FY 1990. The analyses and development of the strategy will be hampered by the paucity of data, let alone gender specific data. This problem is expected to continue in the near term.

The Mission's WID performance will be strengthened by further training of its staff in WID-related issues. This training will occur upon receipt of the training materials promised by AID/W per 88 State 311442.

6. PVO Collaboration

USAID/Guinea, through its Rural Enterprise Promotion project, will increase the use of U.S., and later Guinean, PVOs in the execution of an important segment in its strategy to strengthen the private sector. Under this project, PVOs will use U.S. funds to carry our a broad range of agricultural production, processing, and marketing activities complimentary to A.I.D. and GOG development

strategies and priorities. The design of the Natural Resources Management project will explore the use of PVOs, to the maximum extent possible, to address the adverse environmental developments that have reduced agricultural productivity in the Fouta Djallon.

7. Peace Corps Collaboration

USAID/Guinea collaboration with the Peace Corps has only just recommenced after a hiatus of over twenty years. The return of the Peace Corps to Guinea, in the fall of 1986, provided the opportunity for joint activities. In FY 1988 Peace Corps language teachers, during the school vacation period, assisted the CCCD project in compiling data and expanding the use of the ORT treatment. We envision Peace Corps participation, with PVOs, in the implementation of the Rural Enterprise Promotion project as well as PC volunteers playing an active role in the Natural Resources Management project. A Small Project Assistane project (675-0220) agreement between USAID/Guinea and Peace Corps/Guinea will be signed in the third quarter of FY 1989 to provide $ 40,000 to finance food production, income generations, and small enterprises development projects.

8. Gray Amendment

USAID/Guinea provided only limited funding to Gray Amendment entities in FY 1988. This included $ 50,000 for the mid-term evaluation of the AEPRP by ISTI consultants and $ 60,000 for a female USPSC. During FY 1989, approximately $ 130,000 will be committed to a Gray Amendment entity, OIC, for small enterprise management training. Additional funds, as appropriate, will be available for Gray Amendment set-asides.

9. Donor Coordination and Collaboration

USAID/Guinea's objectives and those of the other major donors in support of the structural adjustment program are generally compatible. There are, however, conflicts. The points of divergence lie in the priorities given to the fulfilling of the conditionalities to disbursement of funds, the role of the private sector versus state control of certain aspects of the economy, and food assistance. In the case of conditionalities and the role of the state in the economy, the World Bank, the lead donor in the effort to privatize state enterprises, failed to respect the agreed upon time-table for the closure of four state-owned agriculture input and produce marketing entities, and neglected to inform the Mission of this change. This resulted in the GOG's not meeting the remaining unmet CP to the disbursement of the second and last tranche of the AEPRP.

The Caisse Centrale, French, provided funds to SEMAPE, one of the two agricultural input parastatals to be closed under the terms of a CP of the AEPRP, to finance the importation of 5,000 MT of

pesticides and other inputs in 1986 for the 1987 crop year. These funds were provided after the Central Bank and the Ministry of Economy and Finance refused to provide SEMAPE with foreign exchange as part of the GOG's efforts to close it. In the case of food assistance, UN family and Caisse Centrale financed consultants continue to advise the GOG to intervene in the import and marketing of rice imports through the establishment of a sizeable security stock, the re-introduction of a subsidy on fertilizers, and the closer monitoring, if not actual control, of the levels and timing of the arrival of imported rice. With the recent increase in on-board staff and through the use of short-term consultants, the Mission intends to become more actively involved in the monitoring and resolution of non-compatible or differing priorities in assistance objectives among the donor community.

10. Personnel and Financial Management

Althrough our FY 1989 staffing ceiling has been increased to a total of eight (possibly nine, if our current request is approved) US direct hire positions and three foreign service national positions, we have been hampered in full program implementation by delays in filing these positions. Approval for the new positions and recruitment for them must be accelerated to assure that qualified staff, especially in the French language, are assigned to Guinea. Of critical concern is the project development officer/special projects officer position, currently schedule for arrival in January 1990. This position is a prerequisite to being granted full mission status with attendant authorities.

If the program expansions proposed in this Action Plan are approved, we anticipate a need for two additional US direct hire positions and two additional FSN positions. These positions will be used to improve program and project management, and to strengthen the policy and program planning capabilities of the Mission.

Expansion of administrative and financial support activities will also be required, to ensure the effective continued operation of Mission programs. Additional staff require increased support, in the form of office and residential space, furnishings, and equipment. Given the very poor living and working conditions in Conakry, and the lack of substantive investment in previous years, significant investment is required in this area over the next two years. This will involve investment not only in the physical environment, but also in human resources.

With the move to new temporary office space in FY 1989, and to permanent office space in late FY 1990, we expect to see major improvements in the work environment. While we have made progress in establishing a base for office operations, we need to focus on providing such basic services as improved and expand computer systems, timely replacement of office equipment, and adequate stocks

of office supplies. We also need to increase and improve our vehicles fleet, and improve motor pool operations.

In the area of living environment, the improvements seen in the local economy have had a very positive effect on employee morale and comfort. Considerable effort is needed, however, to establish better systems for maintaining residences and for replacing household furniture and equipment.

In each of these administrative areas, USAID/Guinea is just now re-establishing, after a hiatus of almost two decades, support systems and staff separate from those of the Embassy. The arrival of a Controller and an Executive officer should lead to development of improved support systems. Implementation of these systems will require investment in equipment and, more importantly, human resources, to develop the capabilities of a largely Guinean support staff.

USAID/Guinea plans to submit an update of the January 1988 Mission Management Assessment in the Spring 1989. This update will respond to the shortcomings identified in the Assessment and identify the steps taken to remedy them. The assignment of both a Controller and an Executive Officer to USAID/Guinea early in FY 1989 is expected to improve Mission management. This is the first time the Mission has had such staff since the re-opening of U.S. assistance to Guinea in the late 1970's.

11. Local Currency Management

The programming of local currency has been an integral part of the Mission's assistance strategy for a number of years. USAID/Guinea programs with the GOG local currency in support of its policy and program objectives and those of the host government's public investment program. In recent years, the Mission has worked with the GOG to strengthen controls over local currency programming and disbursements and to streamline overall procedures in response to Agency guidance and an audit.

The FY 1988 Section 206 Food assistance program required, as a precondition to the shipping of the rice, the signing of a new counterpart management agreement. This agreement established programming procedures that paralleled those of the GOG's newly revised budgetary ones. Since the start of the reform program, counterpart funds have been used to finance the GOG's civil servant departure program, the rehabilitation of the transport network, as well as supporting U.S. and other donor development projects.

The GOG's local currency contribution to the AEPRP cash transfer, of which only the first $5 million tranche has been disbursed, is scheduled to be used to finance a line of credit for the private sector.

A review of the use of the counterpart funds to finance the civil servant departure program is scheduled to take place this Spring. This review is a precondition to any further use of these funds for the departure program.

12. Pipeline

The USAID/Guinea assistance pipeline was $ 6.8 million, (DA, DFA, and ESF), 42% of OYB, as of February 29, 1988. The pipeline, as of February 28, 1989, is $ 8.8 million, 73% of OYB. This trend in the pipeline reflects our attempt to forward fund, to the extent possible, the assistance program to reduce the mortgage in the out years. The pipeline is a reflection of our following AID/W guidance on fully funding as much as possible. The AEPRP, although designed to be quick disbursing, retains 50% of its total available funds, $ 5 million, because of the slowdown in the GOG's implementation of certain aspects of its reform program and the resulting delays in meeting the conditions precedent. It represents the major portion of our pipeline. The pipeline is expected to increase by September 30, 1989, primarily as the result of our rapidly expanding program with projected obligations of $ 12 million in FY 1989. Once these projects are in full implemenation, the pipeline is expected to be drawn down at an accelerated rate.

13. Operating Expenses

Historically, the A.I.D. assistance portfolio in Guinea has been limited with a staff commensurate with the level of the assistance. This recently changed with USAID/Guinea undergoing rapid growth and transformation during the past two fiscal years. Going from an AAO to an OAR to a full Mission, in the less than two years between January 1987 and September 1988, the Mission's operating expenses increased accordingly. The FY 1989 is currently set at $ 1.6 million. An increase in USDH positions from eight to nine is expected within the next few weeks and the Mission contemplates two additional positions by FY 1991. The maintenance of one USPSC position, plus the addition of two FSN positions, one TCN position, and several local PSC positions combine to require an increase in the earlier projected OE budget to enable the Mission to reconcile its growing program responsibilities with its ability to meet them.