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**AGENCY FOR INTERNATIONAL DEVELOPMENT**  
WASHINGTON, D.C. 20523

ACTION MEMORANDUM FOR THE ACTING ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AFR/PD, Timothy J. Bork

SUBJECT: Grant to the International Bank for Reconstruction and Development to Finance Costs of Consultants.

PROBLEM: Your approval is required to provide a grant of \$500,000 from DFA funds to the World Bank to cover expenses it incurs in the development of adjustment programs to be cofinanced by A.I.D. in Sub-Saharan Africa.

DISCUSSION: The World Bank's sector adjustment operations are intended to overcome policy impediments to economic growth. In recent years the growth performance in Sub-Saharan Africa has been dismal. Over 1982-1988, real GDP grew only 2.2% per annum while population expanded at 3% per annum. A major contributing factor to the economic malaise has been imprudent economic policies. Many African governments have not allowed resources to be allocated efficiently. This has had an adverse impact on private sector activity which is so essential to the stimulation of economic growth. For its part, the World Bank has responded to this development challenge with its Special Program of Assistance for Low-Income, Debt-Distressed Countries in Sub-Saharan Africa. In pursuing this effort to galvanize and coordinate international donor community support for economic policy reform in Sub-Saharan Africa, the World Bank is developing adjustment operations suitable for cofinancing.

The Agency for International Development is planning to program approximately \$350 million in non-project assistance in 17 Sub-Saharan countries over fiscal years 1989 and 1990. In accordance with Africa Bureau guidance for the implementation of non-project assistance, A.I.D. will seek to associate its sector NPA programs with the World Bank in all eligible countries in order to maximize the impact of DFA resources. Close coordination between A.I.D. sectoral policy reform programs and the Bank's structural adjustment programs will be crucial in ensuring that the policy agendas of each organization are consistent with each other.

Effective coordination with the World Bank has not been easy to achieve over the years. However, with the advent of the Bank's Special Program of Assistance for Low-Income, Debt-Distressed Countries in Sub-Saharan Africa ("SPA") and its need to develop cofinancing partners in order to make SPA successful, the interests of all parties in improved coordination are now substantial. We have been examining for over one year now the specific issue of improved coordination in the design of

cofinanced sector assistance programs -- particularly the policy reform conditionality aspects so important to the success of our sector assistance efforts -- and have concluded that sharing the costs of designing these programs will provide A.I.D. with the access, information and participation needed to achieve effective coordination.

Accordingly, the purpose of this grant is to provide a significant portion of the specialized expertise required by the World Bank for the development of adjustment programs in countries in which A.I.D. is or will be developing, or recently has developed, sector adjustment programs. Annex I contains a list of eligible countries.

In order to streamline administrative procedures and conserve A.I.D. resources, A.I.D. will not procure the required consultants itself. Rather, the approach used by other countries participating in cofinancing arrangements with the World Bank under SPA will be adopted: namely, A.I.D. will grant the necessary funding to the World Bank to help enable it to hire the consultants on an as-needed basis, using the Bank's own procedures. By financing consultants who will participate on World Bank design teams, A.I.D. will receive advance information concerning the nature of the adjustment programs under World Bank consideration and their potential impact on A.I.D.'s plans. This will facilitate a more timely and better informed dialogue with the World Bank regarding these programs. A.I.D. will also receive from the World Bank copies of all reports to which A.I.D.-funded consultants contributed, as well as other pertinent World Bank documents concerning the design of adjustment programs in eligible countries. Finally, A.I.D. and World Bank representatives will establish mechanisms for consulting at least twice annually concerning progress of the Special Program of Assistance and other matters of mutual concern, including the status of ongoing and potential adjustment programs in Africa and the implementation and impact of this Grant.

A pilot program involving a two year grant of \$500,000 has been designed for this purpose. Its effectiveness in facilitating improved cooperation with the World Bank will be carefully assessed prior to completion of the grant and before additional funding will be considered. Use of grant funds will be limited to consultant services and audits. Therefore, the global amounts which appear in the grant agreement represent the maximum funds available for the two line items.

CONFORMANCE WITH A.I.D. REQUIREMENTS: A.I.D. Handbook 13, Chapter 5D states that grants to Public International Organizations (PIOs) are appropriate where: (1) support of the activity is considered more effective and efficient than direct A.I.D. assistance in achieving a particular development achievement; (2) the objectives of the PIO are compatible with those of A.I.D.; (3) there is no reason to consider the PIO not responsible; and (4) the grant is

not made to augment the PIO's operating budget or fund activities for which the U.S. is making a voluntary contribution under Chapter 3 of the Foreign Assistance Act. The proposed grant to the World Bank conforms to each of these conditions as outlined below:

- 1) It would be inappropriate for A.I.D. to contract with each required consultant on a case-by-case basis when the World Bank is more familiar with SPA requirements and will finance from its own resources the majority of personnel needed for each consultancy team.
- 2) A.I.D. support of the objectives and goals of the World Bank is demonstrated by Africa Bureau guidance which indicates that its sector NPA programs should be associated with the World Bank in all eligible countries.
- 3) There is no reason to consider the World Bank irresponsible.
- 4) The purpose of this Grant is to enhance the impact of DFA Sector Assistance Programs which are cofinancing World Bank Adjustment Programs by providing a framework for improved coordination in the design and implementation of such cofinanced programs.

As a small grant to a PIO, this activity falls within the purview of Chapter 4 Handbook 3 (Exception to the General Project System) and Chapter 5 of Handbook 13 (Grants to Public International Organizations). With respect to the former, the requirements for a "PID-like document" were met with the submission of a draft proposal (Annex II). This Action Memorandum and the attached grant agreement will represent the final design of this activity and serve as the Project Paper equivalent and authorization document.

An IEE is not included and a categorical exclusion is hereby requested. Pursuant to 22 CFR 261.2 (c) the activity meets the criteria which exempt it from the requirement for an IEE. Specifically, section 216.2(c)(2)(iv) exempts projects in which "A.I.D. is a minor donor to a multidonor project" from the procedural requirements of section 216.3, including preparation of an IEE. The clearance of the Bureau Environmental Officer on this memo indicates concurrence with this determination.

Under Handbook 13, Chapter 5, A.I.D. may rely on the audit policies and procurement procedures of the PIO if (a) A.I.D. is not providing 100% of the financing for the activity and (b) A.I.D. is satisfied that the PIO has effective and responsible audit procedures. Through this grant, A.I.D. will finance the salary or fee portion of overall consultants' costs, with the World Bank contributing the balance (e.g. travel, per diem, etc), which is expected to be, in the aggregate, a substantial portion of the total cost of fielding these consultants. In addition, the

World Bank's audit procedures are well established and considered satisfactory. Therefore, A.I.D. may (and indeed will) rely on the World Bank's procurement rules and procedures, including, its nationality rules and fee limits. Finally, competition is not required for grants to PIOs.

The Congressional Notification for this activity was submitted on August 8, 1989 and expired without objection on August 23, 1989.

AUTHORITIES:

Pursuant to Delegation of Authority No. 402 and Handbook 13, Section 5C.1, you have the authority, respectively, to authorize and to sign grants to public international organizations, including the World Bank.

RECOMMENDATION: That you approve the proposed grant of \$500,000 for funding under the DFA.

APPROVED: William Burt

DISAPPROVED: \_\_\_\_\_

DATE: 9/6/89

Clearances:

AFR/PD/SA:CROzell	<u>CROzell</u>	Date	<u>8/31/89</u>
GC/AFR:ESpriggs	<u>ESpriggs</u>	Date	<u>8/1/89</u>
AFR/TR/ANR:BBoyd	<u>B.Boyd (phone)</u>	Date	<u>8/30/89</u>
SER/OP/OS/AFR:RMarshall	<u>RMarshall</u>	Date	<u>8/30/89</u>
AFR/DP:JWestley	<u>JW</u>	Date	<u>9/5/89</u>
AFR/DP/PAB:GCauvin	<u>GCauvin</u>	Date	<u>9/1/89</u>
AFR/DP/PAR:DHarrison	<u>DHarrison</u>	Date	<u>9/1/89</u>
DAA/AFR:LSaiers	<u>LSaiers</u>	Date	<u>9/5/89</u>

AFR/PD/SA, LFranchett & GC/AFR, ESpriggs: 6/24/89:5184L