



MEMORANDUM OF THE UNITED STATES
TO THE
DEVELOPMENT ASSISTANCE COMMUNITY

Aid Review for 1993-1994

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

JULY 1994

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GLOSSARY

ADB	African Development Bank
ABPMS	Automated Budget and Portfolio Management System
AFR	Bureau for Africa, USAID
ANE	Bureau for Asia and the Near East, USAID
AHLC	Ad Hoc Liaison Committee
APAP	Agriculture Policy Analysis Project
ATDA	Agricultural Trade Development and Assistance Act
AWACS	Worldwide Accounting and Control System
BHR	Bureau for Humanitarian Response
CAER	Consulting Assistance on Economic Reform Project
CDC	Cambodian Development Council
CDIE	Center for Development Information and Evaluation, USAID
CEE	Central and Eastern Europe
CGIAR	Consultative Group for International Agriculture Research
CRSP	Collaborative Research Support Project
CY	Calendar Year
DA	Development Assistance Funds
DART	Disaster Assistance Response Team
DFA	Development Fund for Africa, USAID
DIS	Development Information System
EAI	Enterprise for the Americas Initiative
EBRD	European Bank for Reconstruction and Development
ENI	Bureau for Europe and the New Independent States Bureau, USAID
ESF	Economic Support Funds
EXIM	United States Export-Import Bank
EC	European Community
EU	European Union
FAA	United States Foreign Assistance Act of 1961, as Amended
FAO	Food and Agricultural Organization
FSO	Fund for Special Operations
FY	Fiscal Year
G	Bureau for Global Programs, Field Support, and Research, USAID
GEF	Global Environmental Facility
GPRA	Government Performance and Results Act
GSP	Generalized System of Preferences
HIID	Harvard Institute for International Development
ICEG	International Center for Economic Growth
ICORC	International Committee for the Reconstruction of Cambodia
ICPD	International Conference on Population and Development
ICSG	International Center for Self-Governance
IDB	Inter-American Development Bank
IFI	International Financial Institution
IMF	International Monetary Fund
INM	International Narcotics Matters
IPPF	International Planned Parenthood Federation
IRIS	Institutional Reform and the Informal Sector Project
IRP	Institute for Policy Reform
ISA	Initiative for Southern Africa, USAID
LAC	Bureau for Latin America and the Caribbean, USAID

MAI	Multilateral Assistance Initiative
MDB	Multilateral Development Bank
MFO	Multinational Force and Observers
NAFTA	North American Free Trade Agreement
NGO	Non-Governmental Organization
NIS	New Independent States
NPA	Non-Project Assistance
NPR	National Performance Review
NSA	Nuclear Safety Account
ODA	Official Development Assistance
OOF	Other Official Flows
OIT	Office of International Training, USAID
OPIC	Overseas Private Investment Corporation
ORT	Oral Rehydration Therapy
OTI	Office of Transition Initiatives, USAID
PAEF	Polish-American Enterprise Fund, USAID
PECDAR	Palestinian Economic Council for Development and Reconstruction
PHC	Palestinian Housing Council
P.L. 480	Public Law 480
PPDA	The Peace, Prosperity and Democracy Act of 1994
PRMC	Grain Market Restructuring Program
PRISM	Program Performance Information for Strategic Management System
PVO	Private Voluntary Organization
RCG	Royal Cambodian Government
SAI	Southeast Asia Initiative
SPA	Special Program for Africa
US-AEP	United States-Asia Environmental Partnership
U.N.	United Nations
UNDP	United Nations Development Program
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
USAID/W	United States Agency for International Development/Washington
WHO/HRP	World Health Organization's Human Reproduction Program
WID	Women in Development

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I. INTRODUCTION: MAJOR NEW POLICY DIRECTIONS

The end of the Cold War gives the international donor community an historic opportunity to respond to the challenge of development directly, free from demands of superpower competition. The end of the Cold War has also resulted in the end of political oppression in many societies and a corresponding disintegration of states as long-held ethnic and religious animosities have burst into widespread conflicts. These crises require the international community to engage in preventive diplomacy, grounded in greater investment in economic development. All nations must participate in attacking the causes of these disastrous conflicts, not just their symptoms.

The cost of inaction and having to deal with the global impact of imploding societies and failed states will be far greater than the cost of effective action. Investment in development is an investment in crisis prevention. Development cooperation, with increased emphasis on donor coordination and the comparative advantage of individual donors working closely with recipient countries to ensure results, is not just a tactic, but an integral part of the U.S. vision of how a community of nations, some rich and some poor, should interact.

Responding to the new realities of the post-Cold War era, the United States in 1993 undertook a re-examination of its long-term national strategy of foreign economic assistance, its capability to achieve sustainable development and its assistance mechanisms and their ability to deliver solutions to the problems the world now faces. That re-examination has led the United States to conclude that the promotion of sustainable development should be a key element of its foreign policy.

Sustainable development is characterized by continued economic and social growth that does not exhaust the resources of a host country; that respects and safeguards the economic, cultural and natural environment; that creates many incomes and chains of enterprises; that is nurtured by an enabling policy environment; that includes broad-based participation in political and economic life; and that builds effective indigenous institutions that are transparent, accountable, responsive and capable of managing change without relying on external support. Development is "sustainable" when it permanently enhances the capacity of a society to improve its quality of life, enlarging the range of freedom and opportunity, not only day to day but generation to generation.

The principles of the programs of the United States Agency for International Development (USAID), the U.S. Government agency with the primary responsibility for delivering foreign economic assistance, are to build indigenous capacity, to enhance participation and to encourage accountability, transparency, decentralization and the empowerment of communities and individuals. Projects are designed to involve and strengthen the elements of a self-sustaining civil society including indigenous non-governmental organizations (NGOs), private voluntary organizations (PVOs), productive associations, educational institutions, community groups and local political institutions. This approach makes empowerment an integral part of the development process and not just an end result.

USAID's long-term commitment to sustainable development does not imply that assistance is an entitlement or that resources will continue to be provided regardless of results. This commitment will be tempered by identification of clear benchmarks to assess progress and a willingness to shift scarce resources to other activities and countries if results are not being achieved. USAID faces increasing demands to demonstrate effective use of its funds. For example, the combination of budget constraints and a sharper program focus has meant that 21 USAID field missions are being phased out. USAID has made these difficult choices because it must limit its engagement to manageable, productive country programs. The Agency continues to work with countries in which there are significant problems which have a global impact, such as the environment, population, AIDS.

A. NEW STRATEGIC DIRECTIONS FOR USAID PROGRAMS

USAID has identified four strategic areas to be the foci of its efforts to promote sustainable development in addition to humanitarian assistance: economic growth, the environment, democracy and health and population. Within each of these areas, there is policy guidance providing a common analytical framework and key criteria to develop and assess program strategies, indicate new areas of emphasis and ways of developing programs and guide allocation of funds. Emphasis on the critical importance of achieving measurable results in each of the priority areas, and articulation of specific indicators, provides the basis for assessing program successes.

This policy guidance has been developed in collaboration with the U.S. non-governmental organizations and the academic community, as well as cooperating institutions and government agencies in developing countries. USAID has begun, both in the United States and in a number of developing countries, a series of informal consultations on key issues that the policy guidance must address. Participants with USAID in these consultations have ranged from experienced NGOs in the United States to beneficiaries in countries as dissimilar as Indonesia, Mali, Bolivia and Poland.

1. Encouraging Broad-Based Economic Growth

Economic growth in itself does not guarantee sustainable development and poverty reduction. USAID promotes rapid, broad-based sustainable growth, that is environmentally sound and participatory by addressing the factors that enhance the capacity for growth and by working to remove the obstacles that stand in the way of individual opportunity. These characteristics are generally harmonious and mutually reinforcing rather than conflicting and involving trade-offs. USAID concentrates its efforts in three areas:

- **Strengthening Markets:** Healthy market economies offer the best prospects for sustained, broad-based growth, expanded individual opportunity and reduced poverty. USAID supports recipient efforts to address policy and regulatory impediments, establish or strengthen the institutional foundations for market economies, improve infrastructure and undertake other interventions that enhance the contribution and role of markets.
- **Expanding Access and Opportunity:** USAID expands economic opportunities for the less-advantaged in developing countries by promoting microenterprises and small businesses; by focusing on the development and delivery of technology, including agricultural technologies appropriate to small farmers; by enhancing food security at the household and community level; and by increasing the access of women to employment, land, capital and technology.
- **Investing in People:** Building human skills and capacities throughout a society is essential for sustained growth, poverty reduction and improved quality of life. USAID supports recipient country efforts to invest in people through improvements in primary health, education and related services and institutions that facilitate broad-based participation, especially by women, indigenous peoples and other disadvantaged groups.

2. Protecting the Environment

Environmental degradation poses a growing threat to the physical health and economic and social well-being of people throughout the world. The impact of environmental problems on developing nations can be measured in graphic human and economic terms. Widespread soil degradation is reducing the capacity of many countries to achieve food security; air-borne pollutants are likely causing high levels of morbidity and respiratory illnesses; water pollution alone accounts for some 2 million preventable deaths and millions of illnesses each year. Water shortages cause conflicts among industrial,

agricultural and household users within countries and among nations. Environmental degradation can reduce national incomes by 5% or more.

To address these problems, USAID pursues two strategic goals:

- Reduction of long-term threats to the global environment, particularly loss of biodiversity and climate change; and,
- Promotion of sustainable economic growth locally, nationally and regionally by addressing environmental, economic and developmental practices that impede growth.

USAID encourages the development of institutional and policy capacity within recipient countries to facilitate the flow of information, encourage consultations in-country, support economically efficient and environmentally sound policies, and promote development, transfer and adaption of technologies that enhance environmentally sound economic growth. USAID also encourages regional approaches, emphasizing close coordination with other donors, to achieving sustainable development objectives.

3. Building Democracy

USAID's strategic objective in promoting democracy is the transition to and consolidation of democratic regimes throughout the world as an end in itself and because it is a critical element in promoting sustainable development. USAID's success in the other core areas of sustainable development is inextricably related to democratization and good governance. Anarchy and persistent oppression pose serious threats to the security of all nations and result in rising expenditures to provide humanitarian assistance in places like the former Yugoslavia, Somalia and Iraq. Countries mired in social or ethnic strife cannot fully participate in the global economy. USAID programs aim at establishing democratic institutions, an informed populace, a vibrant civic society and a relationship between state and society that encourages pluralism, inclusion and peaceful conflict resolution. Emphasis is placed on respect for the rule of law and human rights, free and fair electoral processes, an enhanced civil society and accountable and transparent government institutions.

USAID not only provides democracy support to sustainable development countries (societies in the process of permanently enhancing their quality of life), but also responds to opportunities to initiate and/or expand democracy in countries in political transition. Democratization is ultimately an internally driven process, and sustainable democracy is present when indigenous forces within a society can maintain and strengthen democracy without external support. USAID's programs promote this result.

4. Stabilizing World Population Growth

USAID uses its population resources to help stabilize world population growth by concentrating its population programs in countries where decreases in population growth rates will enhance the chances for sustainable development and contribute to stabilizing world population growth. The relevant characteristics of such countries include fertility and population growth rates that outstrip the ability to provide adequate food and social services; growth rates that threaten the environment; significant reproductive health problems because of heavy reliance on unsafe abortions; and significant gender gaps in education.

USAID's approach to reducing population growth rates is founded on the following objectives, which do not include advocating the use of abortion as a family planning method:

- Promoting the rights of couples and individuals to determine freely and responsibly the number and spacing of their children;

- Improving individual health, with special attention to the reproductive health needs of women; and,
- Making programs responsive and accountable to the end-user.

B. ONGOING POLICY REVIEWS

There have been numerous studies that reviewed and recommended appropriate changes to the U.S. economic assistance program. The new administration has considered these recommendations and has carried out an in-depth analysis of its own. It has now begun to put into place new systems to deal with the overall policy and administrative reform and reorganization of the Agency, all of which is expected to be completed by 1995. Details of these efforts are delineated in Section X.

In addition, to implement USAID's new strategies and the entire U.S. Government's assistance efforts, the Agency has presented to Congress proposed new legislation to replace the outdated Foreign Assistance Act of 1961. The Peace, Prosperity and Democracy Act (PPDA) of 1994 is currently being debated in Congress. The proposed act provides a comprehensive overview of all major programs funded within the U.S. international affairs budget as well as the basic authorization charter for many of these functions. The PPDA, if passed as presented to Congress, organizes U.S. assistance under the titles of Sustainable Development, Building Democracy, Promoting Peace, Providing Humanitarian Assistance, and Promoting Growth Through Trade and Investment.

II. THE VOLUME OF OFFICIAL DEVELOPMENT ASSISTANCE

A. ODA DISBURSEMENTS AND COMMITMENTS IN 1993

1. The Record of U.S. ODA Performance

U.S. ODA essentially encompasses all of USAID's programs (but not aid to all recipients), and otherwise mainly includes food aid, the Peace Corps, and United States' paid-in contributions to the MDBs and contributions to U.N. development programs.

Net disbursements in CY 1993 of U.S. ODA totaled \$9.721 billion -- a drop of \$1.988 billion from CY 1992 disbursements of \$11.709 billion. Bilateral and multilateral ODA, respectively, totaled \$7.05 billion and \$2.7 billion which reflects declines of \$503 million and \$351 million in the two accounts from 1992 levels. In addition to these ODA flows, the United States disbursed \$1.217 billion in economic assistance in 1993 to Central and Eastern European countries (CEE) and to the New Independent States (NIS) of the former Soviet Union. This amount nearly doubled the amount of aid that was provided in 1992. (Flows to most CEE/NIS recipients are not counted as ODA.)

The nearly \$2 billion decline in U.S. ODA disbursements in 1993 resulted from several factors. In part, bilateral disbursements dropped due to the DAC decision to no longer count as ODA, any forgiveness of official debt originally extended as military aid (even though the forgiveness otherwise meets the criteria for ODA). As a result, the U.S. recorded some \$950 million as Other Official Flows (OOF) rather than as ODA for CY 1993. A decline in funding available for ODA bilateral grant programs also is reflected in the lower level of total disbursements. Another major factor was the \$1.1 billion decrease in contributions to multilateral organizations that occurred largely because of bunching in CY 1992 of U.S. contributions to MDBs. Most of the contributions provided from FY 1992 and 1993 funds were deposited with MDBs in CY 1993.

On a commitment basis, U.S. ODA totaled \$12.426 billion in CY 1993, a drop of \$354 million from the previous year. While bilateral commitments increased by \$671 million, there was a drop of \$1.016

billion in multilateral commitments.

2. Congressional Funding of U.S. Economic Assistance

From the U.S. budget perspective, funding for foreign economic assistance declined by 7.2% from FY 1993 to FY 1994, but is expected to increase in FY 1995. In FY 1994, Congressionally approved funding for foreign economic assistance totaled \$11.7 billion compared to the \$12.6 appropriated in FY 1993. All bilateral accounts except International Disaster Assistance, Population, Peace Corps, and P.L. 480 Tittle II were reduced. However, increased assistance to the New Independent States made up for much of the decrease, as a large supplemental appropriation was approved in FY 1993. Funding levels requested for FY 1995 represent a 4.5% increase over FY 1994 levels. The FY 1995 President's Budget to Congress requests a 30% increase in multilateral funding, while holding bilateral aid and development assistance to FY 1994 levels. Given recent Congressional action, it is unlikely that economic assistance will exceed the levels requested by the President in the FY 1995 budget.

Debt forgiveness under the Enterprise for the Americas Initiative and the Agricultural Trade Development and Assistance Act (ATDA), Section 411, which increased by \$611 million over 1992, was included in ODA grants. However, this increase was offset by a decline (approximately \$500 million) extended under the FAA.

Table I
U.S. ODA Commitments: Selected Trends
(Calendar Year commitments in \$ millions)

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
Total ODA	8,808	23,419	18,261	12,773	12,426
% Change	-21%	+166%	-22%	-30%	-3%
Bilateral ODA	7,870	20,446	16,181	8,848	9,519
% Change	-1%	+160%	-21%	-45%	+6%
--Bilateral Grants	7505	19,771	10,956	8,566	8,583
% Change	+10%	+163%	-45%	-22%	
--Bilateral Loans	366	675	5,225	282	936
% Change	-67%	+84%	+674%	-95%	+332%
Of which:					
Food Aid	306	585	366	258	229
Loans					
Multilateral ODA	937	2,973	2,080	3,925	2,909
% Change	-71%	+217%	-30%	+89%	-26%
Of which:					
Capital Subs.	65	2,094	1,041	2,771	1,541
United Nations	710	696	852	975	1,125

Source: Bureau of Economic Analysis, U.S. Department of Commerce, Washington, D.C.

B. ODA PROSPECTS IN THE NEAR TERM

At this time, increases in ODA for FY 1995 seem unlikely. Like many items in the U.S. federal budget, foreign assistance is subject to the efforts of the current administration to reduce the USG's fiscal deficit. In an attempt to operate more efficiently, while simultaneously recognizing that some traditional aid recipients no longer required concessional assistance and could be "graduated," USAID decided to close 21 of its overseas missions. Some of the close-out countries, however, will be serviced from regional missions. There will be no reduction in the assistance levels for Africa, and there will be an overall increase in humanitarian disaster assistance. In addition, the President has announced a new initiative for South Africa which will involve a package of grant, technical assistance, loan guarantees and other assistance totalling \$600 million dollars over the next three years.

III. AID QUALITY, COMPOSITION AND FINANCIAL TERMS

A. AID QUALITY AND FINANCIAL TERMS

USAID concentrates its resources in three types of countries: (1) sustainable development nations; (2) states in transition; and (3) emerging civil societies or humanitarian assistance countries. Within these countries, financial and human resources focus on four areas that are fundamental to sustainable development -- broad-based economic growth, environment, democracy and health and population.

USAID is primarily a grant-making agency. Typically, funding is made available through discrete projects that have a defined purpose and established indicators of development impact or through Non-Project Assistance (NPA) mechanisms geared to bring about policy reforms in identified sectors (e.g., health, education, banking). As detailed in Section X, most investments are programmed at the field mission level within the context of strategic development plans. While in earlier years the Agency did provide loans on concessional terms, since the mid-1980s it has been operating almost exclusively through grants. For most of its history USAID made its resources available only to participating governments within the narrow interpretation of a bilateral "government-to-government" program. While assistance to the public sector has and will continue, in the early 1980s the Agency, as a part of its economic growth strategy, began to channel a significant level of resources to private sector entities. This trend will continue and expand as the Agency expands its outreach to international NGOs, and to local NGOs and other indigenous groups in promoting enhanced civic participation and improved governance as a part of its attempt to realize sustainable development.

USAID is planning to bring new, additional funding mechanisms on-line. For example, consideration is being given to an enhanced credit (guarantee) program related to sustainable development activities. Both sovereign and non-sovereign recipients could be eligible for participation in this program. The types of projects that would be eligible for funding include privatization of state-owned enterprises and support for private providers of health care.

Also, USAID will begin to entertain proposals for the funding of endowments to NGOs. An endowment will be considered for achieving objectives not fully attainable from traditional assistance modes. This mechanism may be used in areas such as the environment, education, enterprise funds and health, where activities have a long-term time frame and where funding by short-term grants or a series of such grants is likely to be insufficient to realize the full program objectives.

B. DEBT RELIEF AND EQUIVALENT MEASURES

(1) Paris Club. During FY 1993, the United States entered into 14 bilateral debt rescheduling agreements valued at \$2.34 billion. Rescheduled loan payments due to USG agencies and rescheduled debt agreements concluded in FY 1993 follow:

**Table II
Debt Relief**

AGENCY/PROGRAM	RESCHEDULED DEBT (\$000)
USAID	757.745
P.L.-480	102.086
Export-Import Bank	1,219.731
Department of Defense	33.186
Department of Agriculture	228.953

**Table III
Rescheduled Debt Agreements**

COUNTRY	TOTAL RESCHEDULED (\$000)
Argentina	163.3
Bolivia	15.2
Brazil	1,600.0
Cameroon	19.7
Ethiopia	20.1
Guinea	25.6
Honduras	36.9
Mauritania	5.8
Morocco	120.7
Mozambique	7.7
Peru	234.1
Sierra Leone	2.1
Tanzania	12.1
Zambia	78.5

(2) Section 572 Debt Reduction. Section 572 of the FY 1989 Foreign Operations, Export Financing, and Related Operations Appropriations Act (P.L. 100-461) provides authority to waive the requirement that a recipient of Development Assistance or Economic Support Fund loans repay in dollars the principal and interest on those loans. The provision applies to any relatively least developed country or any country in sub-Saharan Africa if an IMF Stand-By Agreement, Structural Adjustment Facility or a World Bank (or IDA) structural adjustment program is in effect with respect to that country.

There were no Section 572 debt forgiveness agreements signed in FY 1992. In FY 1993, Zambia received a second tranche of debt reduction of \$55.9 million, which is part of a three-tranche debt forgiveness agreement signed in 1991.

(3) Enterprise for the Americas Initiative (EAI). In FY 1993, \$90 million was provided for EAI debt

reduction (\$40 million for P.L. 480 debt reduction and \$50 million for USAID debt reduction). The countries that benefited from this program and the amounts of debt forgiveness are shown below.

Table IV
Enterprise Fund for The Americas Initiative Debt Reductions

Country	USAID Debt Reduction (\$ 000)	P.L. 480 Debt Reduction (\$ 000)
Chile	15.0	
Colombia	31.0	
Uruguay	3.3	0.4
El Salvador	195.0	268.0
Argentina	3.8	
Jamaica	94.1	
Total	342.2	268.4

IV. PUBLIC OPINION AND INFORMATION

A. PUBLIC OPINION ON FOREIGN ASSISTANCE

Repeatedly, polls show that there is a sizeable gap between the public's perception and reality on foreign assistance-related issues. USAID's partners in the development community have expressed concern about the American public's misperceptions and negative attitudes toward foreign assistance. Representatives from U.S. PVOs, corporate contractors and other special interest organizations have been cooperating as never before in an effort to communicate a consistent message about the benefits of foreign assistance.

B. PUBLIC INFORMATION AND OUTREACH ACTIVITIES

To amplify the Agency's message, USAID is using a number of new vehicles for public information and outreach purposes. The Agency is working closely with community leaders across the United States in an effort to show how many of the lessons the United States has learned overseas can be applied to help solve some of America's domestic problems. A series of public fora titled "Lessons Without Borders: Local Problems, Global Solutions" have been initiated. These programs are co-hosted by USAID, local governments and community organizations. The first of these sessions took place in Baltimore in June and was hosted by Vice-President Gore. In addition, the Agency has developed a new overview brochure, a new quarterly publication and a series of videos on country programs. These communication aids are being disseminated through a variety of mechanisms to the U.S. public.

V. MULTILATERAL CONTRIBUTIONS

A. MULTILATERAL DEVELOPMENT BANKS

1. The World Bank Group

In 1993 the United States worked very closely with the World Bank Group, especially in coordinating assistance to the West Bank and Gaza, the restructuring of the Global Environmental Facility (GEF) and

developing of programs for the former Soviet Union and the Special Program for Africa. In 1993, the United States obligated the first tranche of its commitment to IDA.

Restructuring and replenishing of the Global Environment Facility were major activities in 1993 and 1994. The restructuring should make the Facility more transparent, participatory, country driven, and accountable to both donor and recipient countries. The United States is pleased to support the new facility as the largest donor to the \$2 billion replenishment.

B. REGIONAL DEVELOPMENT BANKS

1. European Bank for Reconstruction and Development

The United States strongly supported the management reforms instituted by the new president of the European Bank for Reconstruction and Development (EBRD) Jacques de Larosiere. The United States also welcomed EBRD's increased project volume in 1993 as well as the bank's renewed emphasis on efforts to assist small business and the financial sector. In the U.S. view, the EBRD is steadily gaining strength in its role as a catalyst for economic and political transformation in its region of operations. During 1993, the United States agreed to contribute to two of the EBRD-managed multidonor initiatives, the Nuclear Safety Account (NSA) and the G-7's Russian Small Business Program, and also funded a regional senior environmental investment advisor to be based at the EBRD as a follow-up measure to the Lucerne Agreement. As in previous years, the United States continued to provide parallel financing for EBRD projects in 1993, with emphasis on projects that benefited the environment, increased energy efficiency or facilitated privatization.

2. Asian Development Bank

Governors of the Asian Development Bank (ADB) voted to double the capital base of the bank from about \$24 billion to \$48 billion in May 1994. The negotiations leading up to the vote were at times intense and difficult; regional borrowing member countries resisted the linkage between the financial elements of the capital increase and policy provisions. In the end, however, only China abstained and an overwhelming 94 percent supported the capital increase package. The package sets out policy directions strongly supported by the United States which would move the Bank toward the social sector (with lending increasing to up to 40 percent), family planning and the environment, and away from privately fundable power projects. This year the Board of Directors has discussed policy papers on information disclosure, forestry, energy and population. Planned for later this year are papers on governance, indigenous peoples, resettlement and establishment of an inspection function. In February, the ADB released a task force report containing a review of the ADB loan portfolio and an action plan to improve project quality. The ADB is also planning a major reorganization to take effect at the beginning of 1995.

3. African Development Bank

Discussions on the African Development Bank's (AfDB) 7th replenishment are moving towards completion. The United States has taken a leading role in promoting measures to improve the Bank's financial performance. The AfDB lends to the many of the world's poorest countries, and consequently its portfolio has deteriorated in recent years. However, with strong encouragement from contributors to the 7th replenishment, portfolio performance improved significantly in recent months. To justify the continuation of its contributions, the USG believes that, at a minimum, the Bank must strengthen the link between lending and borrower political and economic reform actions. The U.S. is also pressing the AfDB to follow the other multilateral development banks in adopting more rigorous investment selection and approval procedures. Also in line with its policy at the other multilateral banks, the U.S. is pressing for the strengthening of the AfDB's audit function. The USG has initiated a dialogue with

its African partner shareholders in the bank to gain a consensus on the needed reforms.

4. Inter-American Development Bank

The United States played a leading role in helping to finalize the 8th replenishment fund of the Inter-American Development Bank (IDB). After 16 months of negotiations, agreement was reached in April 1994 to increase the IDB's capital stock by \$40 billion (from \$60 billion to \$100 billion), making it the largest regional development bank. The United States will continue to be the IDB's largest shareholder, but its share will decrease over time from 34.6 percent to just over 30 percent.

With the strong backing of the United States, the IDB will now target half its lending to the social sectors, aimed at reducing poverty and achieving social equity. The IDB's soft loan window (Fund for Special Operations (FSO)) will receive another \$1 billion in new resources. The FSO will be restricted chiefly to the five poorest countries of Latin America and the Caribbean. The United States is maintaining its contributions to the FSO at \$82.3 million over four years. In addition, the United States is providing \$500 million over five years to the IDB's Multilateral Investment Fund (MIF). The fund is now capitalized at well over \$1 billion to promote microenterprise development. It was created through a U.S. initiative as a component of the Enterprise for the Americas program.

C. CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS, FY 1992

U.S. contributions to international organizations and programs totaled \$2.34 billion in FY 1992, including assessed contributions of \$1.31 billion to 71 international organizations and voluntary contributions of \$1.03 billion in cash, commodities and services to 43 international programs. Of that amount, \$1 billion was voluntarily contributed for economic development and humanitarian assistance, and \$495.7 million was contributed to peacekeeping operations, of which \$464.2 million was assessed and \$31.5 million was voluntary. The United States' assessed contributions to international organizations in FY 1992 came to 25% of total assessments against all member states, while the Agency's voluntary contributions represented 20%. Overall, the United States provided 22% of total contributions (both assessed and voluntary) to all the international organizations and programs. Of the total assessed contributions of \$844 million (excluding peacekeeping) in FY 1992, \$629.4 million helped finance regular activities of the United Nations, its specialized agencies, and the International Atomic Energy Agency. The remainder consisted of \$114.7 million for eight Inter-American organizations, \$78.2 million for five regional entities and \$21.5 million for 39 other organizations.

Of the \$1.03 billion total voluntary contributions for FY 1992, \$8.4 million was for U.N. peacekeeping operations in Cyprus; \$2.5 million for the Economic Community of West African States, \$1.0 million for the Organization of American States Haitian Election Observers; \$2.0 million for the United Nations Special Commission for Elimination of Weapons of Mass Destruction; \$17.6 million for peacekeeping operations of the Multinational Force and Observers (MFO); and \$1.0 billion, or 97% of the total of such contributions, was contributed to 38 special programs in support of economic development and humanitarian activities. The largest voluntary contribution for FY 1992 was \$306.8 million to the UN/Food and Agriculture (FAO) World Food Program in cash, commodities and services. The second largest was \$240.11 million to the U.N. High Commissioner for Refugee Programs, including five general efforts and five special initiatives, and was followed by \$106.4 million contributed to the U.N. Development Program (UNDP). Other major contributions were \$83.7 million to UNICEF's regular program, \$69.0 million to the United Nations Relief and Works Agency, \$43.0 million to the Consultative Group on International Agricultural Research, and \$35.0 million to WHO special programs.

VI. GEOGRAPHIC DISTRIBUTIONS OF ODA

Geographical trends for calendar years 1989 through 1993 are illustrated in Tables V and VI. After

a steady rise from 1989 to 1991, bilateral ODA declined by 16% in CY 1992 and a further 11% in CY 1993. Most geographical regions, except sub-Saharan Africa, experienced declines.

Table V

**U.S. Bilateral ODA, Net Disbursements
Geographical Distribution by Region, 1989-1993
(in \$ millions)**

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
Europe	-29	-44	240	-40	172
Africa	1,855	3,529	4,077	3,003	2,505
North of Sahara	1,010	2,432	3,013	1,696	954
South of Sahara	732	1,001	976	1,159	1,443
Regional Unspecified	113	96	88	148	108
Latin America	1,221	1,343	1,407	790	742
Caribbean and Central	996	1,086	1,108	868	508
South	57	117	172	-181	115
Regional Unspecified	168	140	127	103	119
Asia	2,108	2,189	2,361	2,602	2,002
Middle East	1,284	1,413	1,648	1,996	1,359
South Asia	567	458	422	331	325
Far East	221	283	239	219	287
Regional Unspecified	36	35	52	56	51
Oceania	178	74	39	23	181
Worldwide, Unspecified	1,493	1,276	1,272	1,481	1,403
Bilateral, total	6,827	8,367	9,396	7,859	7,005
Memorandum:					
Least Developed Countries	761	985	912	1,005	1,268

Source: Bureau of Economic Analysis, U.S. Department of Commerce, Washington, D.C.

Table VI

**U.S. Bilateral ODA, Net Disbursements
Major Recipients, by Region, 1989-1993**
(in \$ millions)

	<u>1989</u>		<u>1990</u>			
	Total of which:	6,827	Total of which:	8,367		
Europe	Portugal	32	Portugal	21		
North Africa	Egypt	905	Egypt	2,346		
Sub-Saharan Africa	Sudan	110	Sudan	143		
Carib. & C. America	El Salvador	311	El Salvador	247		
South America	Bolivia	69	Bolivia	84		
Middle East	Israel	1,152	Israel	1,296		
South Asia	Pakistan	263	Bangladesh	168		
Far East	Philippines	193	Philippines	249		
Least Developed	Bangladesh	137	Bangladesh	168		
	<u>1991</u>		<u>1992</u>		<u>1993</u>	
	Total of which:	9,396	Total of which:	7,859	Total of which:	7005
Europe	Turkey	225	Albania	28	Turkey	133
North Africa	Egypt	2,964	Egypt	1,662	Egypt	
939						
Sub-Saharan Africa	Ethiopia	88	Somalia	306	Somalia	489
Carib. & C. America	Nicaragua	379	El Salvador	230	El Salvador	207
South America	Bolivia	86	Bolivia	133	Bolivia	81
					Peru	81
Middle East	Israel	1,261	Israel	1,900	Israel	1262
South Asia	Bangladesh	130	Bangladesh	130	Bangladesh	71
Far East	Philippines	224	Philippines	229	Philippines	270
Least Developed	Bangladesh	130	Somalia	306	Somalia	489

Source: Bureau of Economic Analysis, U.S. Department of Commerce, Washington, D.C.

VII. HIGHLIGHTS OF FOLLOW-UP ACTIONS TAKEN ON MAJOR DAC POLICY PRINCIPLES AND RECOMMENDATIONS

USAID's policies and programs are evaluated systematically at the project, program, country and agency level. Since the 1991-1992 U.S. DAC Report, there have been many internal and external studies of the USG's foreign assistance effort as well as the reform of USAID. These efforts plus those currently under way on reengineering, and reorganizing USAID, described in Section X, have resulted or will result in numerous changes in USAID policies and approaches to development. These changes closely reflect many of the DAC Principles and the DAC recommendations from the prior review.

Since the last U.S. DAC review, greater emphasis has been placed on many DAC Principles areas:

- improvement in the policy and administrative enabling environment in aid recipient countries, recognizing that good governance and an accountable, transparent regime will more likely accomplish the objectives of USAID assistance;
- development of achievable Agency and country strategic objectives, using the Program Performance Information for Strategic Management System (PRISM) tool and a variety of newly "engineered" systems that will streamline USAID's design and procurement procedures and assist in identifying corrective actions toward the achievement of strategic objectives;
- emphasis on participation of not only American NGOs, but also counterpart implementing entities and beneficiary organizations, creating greater ownership of development activities and stronger indigenous capacity, as well as increasing the potential for long-term sustainability;
- participation in the development process not only as beneficiaries, but also as agents of change have proven extremely fruitful and have had a significant impact on maternal and child health as well as family income;
- reorganization of the Agency and centralization of technical resources to enable the Agency to improve technical cooperation and the Agency's response to the training requirement of our development partners;
- emphasis on program and staff strengthening to better enable USAID to evaluate environmental impact, develop environmentally sustainable projects and increase donor and recipient cooperation and coordination on national and global environmental concerns; and,
- introduction of a greater number of carefully designed initiatives to strengthen or encourage the development of civil society and the rule of law as well as a respect for human and civil rights, particularly in newly democratic countries or countries in transition.

VIII. AID COORDINATION, COUNTRY PROGRAMMING AND DEVELOPMENT STRATEGIES

Coordination with other donors on strategy and programming has been important to USAID policy throughout the Agency's history. Given the magnitude of the problems that exist and the limits on the resources available to address them, effective joint action among donors is more important than ever. USAID is committed to improving upon the firm collaboration base that already exists with other donors and recipient countries to make the delivery of assistance even more efficient and complementary.

A. MULTILATERAL AND REGIONAL BANK COORDINATION

USAID coordinates with the multilateral development banks (MDBs) extensively both in the field and in Washington. USAID officers in missions meet often with their MDB counterparts. Consultations between USAID/Washington desk officers and senior staff and their bank counterparts are extensive. Joint assessment missions, policy and country workshops, and parallel financing of USAID technical assistance and bank loans are common. The Agency plays an active role in both Consultative Groups and Round Tables, as well as in a variety of ad hoc meetings. USAID is the only bilateral donor that has a specific system to solicit field comments on MDB projects and to use these comments in government decision-making on executive board votes on bank projects. The Special Program for Africa (SPA) is a unique arrangement for donor cooperation that USAID strongly supports. In addition USAID has established a series of sectoral working groups with the World Bank to facilitate cooperation in the key sectors of economic growth, environment, health and population, and democracy and governance.

B. RECENT PROGRESS THROUGH DONOR FORA

Over the past two years the coordinated action of donors has resulted in significant advances of the development agenda. For example, USAID has worked with counterpart organizations under the SPA to include political liberalization on the agenda for sustainable development in Africa. In addition, the SPA has served as a venue for moving the donors toward consensus on other issues such as promoting sensitivity to gender equality in programming, simplifying administrative procedures and encouraging reform efforts to focus more closely on poverty alleviation. Regular consultations with counterpart organizations have been an integral part of USAID's preparation of a special Initiative for Southern Africa.

Serious dialogue among members of the G-24 group has been instrumental in improving donor efforts in Eastern Europe. Most notable is the enhanced delivery of emergency assistance to Bosnia-Herzegovina. The recent agreement among G-24 partners to move the coordination function for democracy-related matters to the field is likewise an important development.

C. IN-COUNTRY COORDINATION

All USAID field missions are active participants in in-country donor coordination groups. The deliberations and joint programming actions that take place at this juncture serve to reinforce the coordination work, referred to in Sections VIII.B. and C. above, at the multilateral or regional level. The following chart captures a cross-section of recent in-country coordinated donor initiatives in which USAID is an active partner. Examples do not include macro policy reform efforts as they are covered in Section IX.

Table VII

In-Country Donor Coordination Initiative

Location	Activity	Donors
Central-Eastern Europe	Environmental Initiative	Japan-USAID
Danube River Basin	Pre-investment Analysis of River Basin and Tributaries	USAID-EBRD-EU-World Bank
Poland	Polish-American Enterprise Fund	USAID-EBRD
Russia	Privatization Fund	USAID-G-7-IFIs
El Salvador	Tax System Reform	USAID-IMF-World Bank-IDB-UNDP
Haiti	Democracy	USAID-various bi-lateral donors
Morocco	AIDS	USAID-WHO
Jordan	Agriculture Policy Charter	USAID-GTZ-World Bank
Guinea	Primary Education Reform	USAID-World Bank-FAC

D. ARREARS CLEARING**1. Africa**

There are several countries in which USAID's non-project assistance has directly serviced international finance institution (IFI) debt, including Burundi, Cote d'Ivoire, Madagascar, Sierra Leone and Zambia. USAID's program to support the effective management of environmental policies in Madagascar provided \$10 million in FY 1993 and FY 1994 to help pay debts owed to a number of IFIs. In Zambia, in FY 1992, \$23 million under the Maize Marketing Decontrol Program was used to pay IMF arrears, a critical input for reactivating the World Bank/IMF adjustment programs in Zambia.

2. Latin America and the Caribbean

USAID has pledged to contribute to an IFI arrears-clearing arrangement in Haiti should such an arrangement become feasible. In 1993, the U.S. Treasury provided bridge financing to help Peru clear its arrears with the World Bank and the IMF. This was done in close collaboration with Japanese economic assistance entities.

IX. ADAPTING AID POLICIES TO POLICY REFORM AND STRUCTURAL ADJUSTMENT EFFORTS OF LDCs

A. BILATERAL AND REGIONAL POLICY REFORM INITIATIVES

The United States strongly supports efforts of developing countries to adopt and implement policies conducive to broad-based economic growth and to ensure the sustainability of growth through structural adjustment. The USG, principally through USAID, provides technical assistance to help policy-makers identify, design and implement appropriate measures and provides resource transfers to underwrite the resulting reforms. USAID field representatives maintain a policy dialogue with host government officials, emphasizing the importance for development of a policy environment conducive to private enterprise, competitive markets, growing participation in international trade and the effective and equitable provision of key social services. In addition, USAID works to broaden participation in the policy reform process beyond the government, encouraging the active involvement of affected groups in the design and implementation of new policies. Finally, USAID policy dialogue underscores the need for improved governance to create and sustain economic growth that is equitably distributed throughout the society. Following are several examples of support for policy reform through bilateral and regional USAID programs:

1. Latin America and the Caribbean

USAID supported development of Bolivia's new banking law in 1993 which brought credit unions under the supervision of the Superintendent of Banks. As a result, public confidence in supervised credit unions increased, and the credit unions' share of national deposits doubled from 1.4% to 2.8%.

In El Salvador, USAID's policy reform efforts in 1994 focused on improvements in the efficiency and quality of social sector programs, drawing on USAID-financed health and education sector assessments in which a wide range of stakeholders (including the government, former guerrillas, academia, and the private sector) actively participated.

In Nicaragua, since 1992 an effort has continued to support the reform of the Bank of Nicaragua (BANIC), a state-owned entity that is the country's second largest commercial bank. USAID identified management changes and technical assistance needs, mobilized other donor support, and negotiated appropriate reforms with the government. Privatization of the bank is a likely outcome once it has been put on a sound footing.

As of mid-1994, USAID's ongoing Privatization of State Enterprises project in Honduras had facilitated the privatization of 43 entities valued at \$160 million and reduced the country's external debt by \$40 million. The project is currently providing technical support for the privatization of the state-owned telephone company. Privatization of this and other holdings has the potential to provide between \$500 million and \$1 billion in resources to the government over the next two to three years. It would also eliminate annual subsidies that have constituted a significant component of the fiscal deficit.

2. Sub-Saharan Africa

Growing concern with the poverty of Malawi's smallholder sector led to the World Bank's Agricultural Sector Adjustment Credit project in 1990/91, which legalized burley (tobacco) production for a pilot group of small farmers. In 1991/92, USAID launched the Agricultural Sector Assistance Program, which helped convince the government to offer smallholders licenses to produce 3.5 million kg. of burley. Smallholder burley producers also were allowed to organize into clubs and sell burley directly on the auction floors, rather than exclusively to the government marketing parastatal. The project has contributed to a significant increase in smallholder incomes.

USAID's Forest Land-Use Planning Project assisted Niger's government to revamp its forestry code and transfer management authority of local forest land from the government to local communities. Prior to USAID involvement, all forest land belonged to the government, while rural communities had no legal right to manage or benefit from the trees on their lands and, accordingly, they had no incentive to rationalize the use of this resource. The revisions in the forestry code have contributed to a rapid increase in the area of forest land under local control, increasing agricultural production and income and reducing forest degradation through improved management.

The *Programme de Restructuration du Marche Cerealier (PRMC)* in Mali, begun in 1981/82, has been a highly successful multidonor coordinated effort to bring about agricultural policy reforms. The donor members (France, Canada, the EC, Netherlands, Germany, Britain, Belgium, the World Food Program and the United States) jointly programmed food aid flows to Mali, the sales of which were used to leverage and cushion policy reforms in the cereals subsector. The program has been successful in opening up agricultural marketing to the private sector, allowing producer prices to be determined by the market, and stimulating the reorganization of parastatal marketing boards. As a result of these reforms, food production has significantly increased, improving the food security of the poor. The success of the PRMC is partly the result of an active dialogue among donors which allowed them to coordinate their efforts in negotiating policy reforms with the government.

The USAID-funded Regional Action Plan for Integration of Marketing in the Central Corridor of West Africa helped governments of the region achieve many policy reforms and other measures that have contributed to the efficiency of livestock marketing: elimination of a quasi-official transport levy; standardization of regional licensing fees; elimination of superfluous taxes in Burkina Faso; exchange of market information between Sahelian production zones and coastal markets; design of safer, more cost-effective rail cars for livestock transport; creation of "one-stop" export windows; and development of simplified documentation for livestock in transit. As a result of these reforms and activities, the costs of livestock commerce among the states of the region have been significantly reduced.

3. Asia

The Multilateral Assistance Initiative (MAI) for the Philippines is a good example of how USAID programs have been designed to support policy reform and structural adjustment efforts in Asia. Launched in 1989 to support democracy, promote sustained economic growth and improve living conditions in the Philippines, the initiative was based initially on the Government of the Philippines's five-year growth plan. To date, the United States has provided just under half of its full pledge of \$1 billion over five years. USAID remains active in the policy reform arena and works closely with the World Bank, IMF, ADB, and Japan within an MAI Core Group structure to identify key policy issues and pursue reforms with the GOP. A major success of the MAI program has been its coordination and integration of economic assistance in addressing the Philippines's development objectives. Each donor contributes to the overall objectives by providing assistance consistent with its comparative advantage. The IMF and World Bank, for example, provide the major financial resources to support macroeconomic and sectoral policy reform conducive to economic stabilization and sector growth, respectively. The United States has been effective in helping resolve "cutting-edge" development problems related to policy analysis and formulation, as well as technology transfer and institutional development.

Bangladesh presents a good example of how USAID technical assistance has been directed to policy reform issues. USAID is providing expertise to improve central and commercial bank operations and address systemic problems in the financial system. Both private and public sector borrowing for investment is encouraged as this project, in association with IBRD sector lending, helps to liberalize interest rates, increase confidence in the formal banking system (which was about 30% insolvent a year ago), and improve the operational efficiency of banks.

In Cambodia, donor coordination was initially implemented within the context of the International Committee on the Reconstruction of Cambodia (ICORC), which was established as part of the Paris Peace Accord in 1991. Consisting of some 30 participating countries and 14 international organizations, ICORC has generated over \$1 billion in donor pledges. In 1993, donors disbursed \$155 million, of which approximately \$68 million supported development projects, \$35 million financed commodity imports and \$52 million was used to clear arrears with the IMF. To improve donor coordination and ensure that it directs funds to the important investment priorities, the Royal Cambodian Government (RCG) has recently established the Cambodia Development Council (CDC) to develop investment priorities and budget requirements, formulate assistance requests and coordinate donor assistance programs. Donor coordination both at the international level and within Cambodia is now moving from an essentially political and humanitarian focus to a more traditional economic development orientation and is responding to Cambodian priorities as outlined in the RCG's National Programme to Rehabilitate and Develop Cambodia, issued February 1994.

4. NIS and Central and Eastern Europe

A key objective of U.S. assistance to the NIS and Central and Eastern Europe is to foster the emergence of competitive, efficient, market-oriented economies in which the majority of economic resources are privately owned and managed, basing economic decisions primarily on individual choice. To illustrate, in Russia USAID sponsored technical assistance and designed anti-trust and competition procedures to permit market forces to work. Also, USAID helped Russian local, regional and national governments develop tax and expenditure policies that link revenues with public service expenditures at each level. Armenia has adopted a housing privatization law, land tax law and a land transfer tax policy that permits land privatization. This package of legislation was complemented by regulations for urban land valuation and sale and registration procedures. Again with USAID support, Kazakhstan has established a housing policy to privatize condominiums and to permit private ownership of land.

5. Near East

USAID's Near East missions are active partners in policy reform. For example, in Morocco, USAID is engaged with the Moroccan Government in efforts to eliminate artificial price ceilings on agricultural commodities and to reduce the general degree of protectionism toward the agricultural sector. This bilateral initiative closely supports the World Bank's structural adjustment program. In Egypt, USAID has backed a multidonor economic policy reform that has helped the government launch a comprehensive economic reform program, which includes unifying the exchange rates, liberalizing the credit interest rate regime, reducing tariffs, eliminating most non-tariff barriers to trade, cutting the budget deficit, reducing inflation and augmenting its repository of international reserves.

B. INSTITUTIONAL SUPPORT FOR POLICY REFORM

In addition to bilateral and regional policy reform efforts cited above, USAID backs several institutional mechanisms aimed at supporting the process of policy reform. Activities include support for applied research on key issues of development policy and policy reform; international dissemination of country experience in policy reform through publications, conferences and other forms of networking; and direct consulting services to governments. Emphasis is on privatization, deregulation, reallocation of public expenditure and support of new market institutions. Major USAID-supported institutions are:

1. The International Center for Economic Growth (ICEG) and the International Center for Self-Governance (ICSG) are supported to strengthen market-oriented and democratic policy and institutional reforms. ICEG's goals are economic growth, policy reform and human development. Recent ICEG publications, conferences and policy analyses have emphasized trade liberalization, stabilization, privatization and development strategies. Established in 1985, ICEG supports a network

of over 300 policy institutes in more than 100 developing, developed and transitional economies (including the New Independent States). ICEG's newsletter reaches nearly 30,000 policy dialogue leaders, analysts and participants. The ICSG's mission, on the other hand, is to promote the self-governing and entrepreneurial way of life through institutional reforms based on the principles of free markets and democracy. ICSG's emphases are strong publications, training materials and building a participatory network of activists and entrepreneurs.

2. Consulting Assistance on Economic Reform (CAER)

The CAER project aims to help developing nations design, implement, monitor and evaluate economic policy reforms. CAER provides assistance in areas such as privatization, liberalization, reduction of price distortions and reallocation of public expenditure. The project, contracted through the Harvard Institute for International Development (HIID) and its four subcontractors, gives USAID's missions and Washington offices access to economists and other social scientists with extensive practical experience who are highly regarded within their professional disciplines.

Recent CAER activities include a review of the impact of structural adjustment programs on the poor in LAC and Africa; a book on lessons African countries may learn from Asia's development experience; an evaluation of progress toward developing decentralized market-based financial systems in Hungary, Poland, Bulgaria and Estonia; and an assessment of regional economic integration in West Africa.

3. Institutional Reform and the Informal Sector (IRIS)

IRIS, begun in late 1990, is the Agency's major resource to assist USAID missions help countries shift from single-party command economies to market economies operating within an environment of democratic pluralism. Drawing on the "new institutional economics," IRIS's purpose is to: (1) promote laws, regulations, organizational structures and decision-making processes in selected countries; (2) build an increased international awareness of the role of institutions in economic development; and (3) expand the knowledge base on the relationship between institutions and economic growth and examine new approaches to institutional reform. In Poland and other Central and Eastern European countries and in Russia, IRIS provides assistance in drafting and promoting legal, regulatory and judicial reforms. In Mongolia and Nepal the emphasis is on creating institutional conditions supportive of competition. In Chad, IRIS is pursuing the same general objective by working through and with the private sector, while the early stages of work in India are helping to reorient economic policy thinking from a planning/control perspective to one that emphasizes institutional reforms supportive of an open, competitive market.

4. The Institute for Policy Reform (IPR) supports cutting-edge research in new and promising areas of economics and political economy relating to developing country policies and policy reform. In addition, IPR supports a research coordination program, which facilitates communication among researchers and between USAID professionals and the academic community, and conferences, workshops and publications aimed at disseminating research results.

C. PERFORMANCE-BASED BUDGETING

Decisions on which countries receive U.S. foreign assistance and the allocation of assistance among countries is a complex process in which a number of criteria, including country and program performance, are considered.

USAID is extending its program performance system throughout the Agency. As part of the Development Fund for Africa, USAID's Africa Bureau initiated a program performance system in the late 1980s, and the Latin America and Caribbean Bureau began work on a performance system in

1991. By April 1995, all USAID missions and USAID/Washington offices responsible for managing development assistance programs must develop strategic objectives and indicators to assess progress toward those objectives. While the Agency system will continue to be refined over time, it will provide the basis, along with other considerations, for internal resource allocations within a mission or office program and ultimately will guide resource allocations among countries.

The country performance system, which focuses on major policy areas including tariff and non-tariff barriers, exchange rate distortions, macroeconomic stability and the degree that markets function competitively, has yet to be extended throughout the Agency. A variant of this system is expected to be used to influence resource allocation decisions along with the program performance system. A key constraint to using both systems to guide resource allocation decisions is the number of legislated directives or recommendations that require resources to be allocated to specific sectors or developmental areas of concern. The new draft foreign assistance bill currently being discussed in Congress presents programs and measures performance at the strategic objective level, rather than at the project level, thereby allowing USAID to make more of the internal programmatic allocations and adjustments based on country and program performance.

X. AID MANAGEMENT AND EFFECTIVENESS

USAID was recommended by the Administrator for designation as a reinvention laboratory under President Clinton's National Performance Review (NPR). Accordingly, the Agency is undergoing comprehensive management reform. At the base of this reform, USAID recognizes that it is entering a new era and that old ways of viewing issues and of operating will not suffice in the future. The USAID Administrator has committed the entire Agency to rethinking, streamlining and improving every aspect of how it does business.

A. RESULTS-ORIENTED OPERATIONS REENGINEERING

As part of USAID's overall reform and reorganization, in late 1993 the Agency began to rethink its core operations' processes and systems. (In this context, operations has been defined as the processes USAID uses to plan, implement and evaluate its development programs.) The result will be a computer-based, customer-focused system in place by late 1995.

1. Overview of the Reengineered System

The new USAID operations system will:

- focus on end-user needs, participation and development results;
- empower people to take on greater responsibility and accountability; and,
- use information system technologies as an enabling tool to help both achieve and demonstrate achievement of the Agency's overall objectives.

Recognizing that the Agency's overall programming process must take into account many external factors, e.g., Congressional mandates and special interest concerns, as well as its own strategic priorities, the system begins with the setting of program parameters, a process that incorporates all of the above plus proposed central bureau country specific activities and any other factors that may have influence over how a country program is planned. This process is informed by the field concerning both results to date as well as preferred programmatic direction.

Within these parameters, a field mission takes responsibility for the preparation of a comprehensive

country strategic performance plan. Once instituted, the strategic performance plan will consist of three parts: a strategic definition of the program, a report on program outcome and results, and an operational resources plan. After the first year of the strategic plan, the program outcome and operational resource plan will be largely generated from the ongoing database that constitutes the Work and Results Plans (described below), rather than separately prepared documents. USAID/W staff, host country government and non-governmental personnel and institutions, intermediaries and end-users, and mission staff all play active roles in this collaborative, interactive process. In addition, the planning process should take into account other donor activities.

The plan focuses on setting and achieving objectives and outcomes, in both the long and short terms, rather than on the inputs and outputs related to individual activities. The plan provides:

- a justification for the selection of strategic objectives and information on why achievements under these strategic objectives appear to be attainable;
- an assessment of impact to date; and,
- resource (funding and people) requirements.

Implementation also will be by strategic objective or, if more appropriate, further disaggregated to the program outcome level. A variety of "tools" may be used to achieve an objective or outcome, and the field Mission will have primary responsibility for these decisions. As with the planning process, teamwork and participation are key elements of the implementation process. Teams will continue to include mission and USAID/W staff as well as host country nationals (end-users and intermediaries) and, at times, service providers. Implementation by program outcome means determining what is the best set of activities to support that program outcome.

In parallel with these major reengineering activities, other important initiatives are also under way.

2. Budgetary Flexibility

The key to greater budgetary flexibility is the adoption of the proposed Peace, Prosperity and Democracy Act of 1994, the new Foreign Assistance Act submitted to Congress in 1994 and intended to replace the 1961 act. It incorporates major reforms and establishes a new basis for foreign assistance programs to meet challenges of the post-Cold War era. Together with a significant reduction of specific earmarks in USAID's pending FY 1995 appropriations legislation, passage of the Peace Prosperity and Democracy Act should significantly improve the Agency's ability to respond to new developments.

3. Financial Management Reform

USAID is in the process of completely revamping its financial management system. The new Worldwide Accounting and Control System (AWACS) will be on-line in 1995. The new system will:

- Capture and record financial information when and where it occurs, maintaining information in a central database easily accessible by managers throughout the Agency.
- Substantially speed up delivery of service by reducing paper flow through greater use of electronic signatures and data entry.
- Produce a new General Ledger for production of standard reports and a "pipeline" system that better enables analysis of unexpended obligated funds in overseas programs.

4. Streamlined Organization

Major activities have been launched to reform and restructure USAID to create a more streamlined Agency, focused on achieving development results:

- For the first time since aid programs were introduced with the Marshall Plan, the United States is reducing its presence overseas by closing 21 USAID posts over the next two years, to focus resources where they are most needed and where prospects for sustainable development are greatest.
- A structural and functional reorganization has been completed which will create a more integrated and more responsive Agency.

The reorganization has effected considerable change in the composition of USAID's Washington offices, but the Agency's field posts have not reorganized. Other than the closing of a number of missions noted above, the role of field offices remains unchanged. The field missions represent the strength of the United States economic assistance model. Accordingly, USAID will continue to operate as a decentralized organization driven by field-based program design and implementation.

The most significant of the modifications to the Washington headquarters is the creation of the Bureau for Global Programs, Field Support and Research (G). Most of the Agency's technical personnel in USAID/W are assigned to G. Among G's functions are: (1) providing scientific and technical leadership for USAID through its Technical Centers; (2) providing expert technical leadership to the Agency at large; (3) directing global programs necessary for the accomplishment of Agency goals; and (4) providing professional management to the Agency's technical cadre on matters related to recruitment, training, assignment and career development.

At the core of the G Bureau structure are five technical Centers of Excellence. The Center for Democracy and Governance provides strategic support and leadership in three primary program areas: rule of law, political institutions and processes, and governance and decentralization. The Center for Economic Growth is responsible for matters related to microenterprise development, business development, agriculture and food security and economic and institutional reform. The Environment Center is the focal point for USAID's environmental program, furnishing technical leadership in environment and natural resources management, energy and environmental technology, and urban programs and shelter. The Center for Population, Health and Nutrition is the repository of technical expertise on population and health questions writ large. The Center for Human Capacity Development manages home office support for a wide range of human resource development fields including basic education, literacy, participatory development, higher education and technical training.

5. Criteria for Selecting Countries in Which U.S. Foreign Assistance Programs Are Being Terminated

In late 1993, the USAID Administrator announced a decision to terminate USAID presence in 21 country and regional assistance programs. (Although 21 posts will be closed, 34 country programs will be affected due to the inclusion of the countries in the regional Eastern Caribbean and the South Pacific programs.) This decision reflected several factors: the need to focus resources where they will have the greatest impact; heavy and continuing pressure on program and operating budgets; the emergence of competing claims on budget and personnel from transitional countries in Central and Eastern Europe and the former Soviet Union; and the attainment of middle-income status by several developing countries in which USAID had long maintained programs. These considerations suggested the desirability of focusing USAID's efforts on a smaller number of countries where they would have the greatest impact.

Countries selected for program termination generally fall into one of the following categories:

1. advanced and/or upper-middle-income developing countries that had attained a level of development where grant economic assistance is no longer deemed the most appropriate instrument of cooperation;
2. small country programs which could be covered through a regional support mechanism; and,
3. countries with a track record of severe and persistent human rights abuses, with little evidence that continued USAID presence was likely to have a major impact in eliminating those abuses and countries with a particularly poor track record on human rights, economic management and economic reform and with little evidence of willingness to adopt needed reforms. The list of countries identified for program termination follows.

Table VIII

**Overseas Bilateral Posts for USAID Termination
By Region/Country**

Africa

Burkina Faso
Botswana
Cameroon
Cape Verde
Chad
Cote d'Ivoire
Lesotho
Togo
Zaire

Latin America and the Caribbean

Argentina/Uruguay
Belize
Chile
Costa Rica
Caribbean Regional

Asia

Afghanistan
Pakistan
Papua New Guinea/
South Pacific Regional
Thailand

Near East

Oman
Tunisia

Flows to Africa. It should be noted that in the past Congress appropriated a specific level of funding for bilateral and regional programs in sub-Saharan Africa under the Development Fund for Africa. As a result, the termination of several country programs in sub-Saharan Africa should lead to higher average bilateral assistance levels for the remaining program countries in the region. Additional funding is provided to sub-Saharan Africa from USAID central programs (health, population, environment); the impact of the above-mentioned termination decisions on these flows is somewhat harder to predict. Funding will continue to be provided for the activities of PVOs on an "exceptions" basis, in areas such as environment and humanitarian assistance, even in the absence of a USAID country presence. In sum, the average funding level for remaining programs in sub-Saharan countries will almost certainly increase as a result of USAID's program termination decision; in contrast, the impact of that decision on the total budgetary resource flow to sub-Saharan Africa is difficult to forecast with precision.

Implementation of country close-out: By the end of FY 1995, USAID will no longer have a presence in the close-out countries. Each mission or office has submitted a detailed phase-out plan showing how it intends to wrap up its portfolio of projects by the close-out date. The operational policy is to leave behind a "useful unit of assistance," but not necessarily everything that was originally planned. For some projects, this may mean terminating all or some components earlier than planned; for others, it may be necessary to extend one or two activities past the close-out date in order to bring them to an orderly close.

The Agency also acknowledges there may be grounds for maintaining or initiating an activity after close-out. Such decisions will be based on developmental grounds, foreign policy concerns and management and accountability criteria.

6. Orientation to Results

A major underpinning of both reinvention and reengineering is a system based on achieving and reporting on results. USAID has redefined its mission, developed new strategies to further that mission and produced implementation guidelines for each of these strategies. It also has finalized an evaluation system that better defines its objectives and measures results against those objectives.

B. PROGRAM PERFORMANCE MONITORING

USAID's Program Performance Information for Strategic Management System (PRISM) was created in 1991, signalling adoption of a more strategic, results-oriented management approach. PRISM serves information needs of senior managers in Washington and program managers in the field. USAID's emphasis on results has been influenced by a variety of factors, including mounting public pressures for program accountability for results, the Administration's National Performance Review recommendations for "reinventing government" and a new legislative mandate - the 1993 Government Performance and Results Act (GPERA). Managing for results requires:

- clear identification of objectives and program strategies for achieving them via a strategic planning process;
- installation of information systems for measuring, monitoring and evaluating the performance of programs against intended results; and,
- use of this information in making strategic decisions about policies, programs and resource allocations.

PRISM is applied in field missions where it helps to: clarify development objectives; focus activities and resources on those objectives; decide on appropriate performance indicators; measure actual performance against expected performance targets and use this information to make management decisions at the mission level; and, to report to USAID/Washington. Strategic plans provide excellent vehicles for dialogue and collaboration with host country counterparts and with other donors. As they are formulated by a "bottom-up" approach, strategic plans reflect the real differences among country circumstances and mission programs. Similar approaches are now being extended to Washington offices responsible for providing field support to missions, conducting research and implementing special centrally managed programs.

A new strategic planning, monitoring and reporting framework has been established that should do a better job of putting USAID's resources behind those programs that promise meaningful development results and that demonstrate progress in achieving those results. Agency-wide resource allocation decisions will be based on factors such as the contribution a USAID country program can make toward meeting strategic objectives, the incremental progress the program is making toward those objectives and the suitability of the country environment to making a positive development impact. Beginning with the FY 1996 budget cycle, a flexible type of "performance-based budgeting" system will be put in place that initially relates a mission's resources to intended results while, ultimately, resource allocation decisions will be influenced by how well actual results are achieved.

Program performance reviews in Washington will provide senior managers with a broad understanding of the impact to date of the Agency's operational programs and, thus, contribute to: (1) informing Agency decisions about overall program planning and resource allocation; and (2) meeting accountability requirements to report on the effectiveness of Agency programs.

USAID also has been developing a computer program for use by missions (and offices) that will

automate their monitoring and reporting on budget and program performance data. In late 1994 when the new Automated Budget and Portfolio Management System becomes fully operational, PRISM data reporting by operating units will become streamlined, i.e., on-line, updated routinely and using a consistent format. ABPMS will help ensure clearer linkages between objectives, results, activities and resources.

As PRISM begins to provide more and more actual performance data, it should become possible through cross-country analysis to identify program strategies that are particularly successful or problematic in varying country conditions. This, in turn, should "flag" specific Agency program strategies in need of greater in-depth evaluation by the Center for Development Information and Evaluation (CDIE) -- to better understand cause-and-effect relationships underlying performance, to explain common factors or "lessons" behind their success or failure and to recommend management actions. The results of these cross-country PRISM analyses and CDIE evaluations of program strategies Agency-wide should influence and improve the Agency's program strategy guidance.

C. EVALUATION PROCEDURES AND STUDIES

1. Evaluation in USAID Field Missions

USAID missions conduct about 150-200 evaluations at an annual cost of approximately \$12 million to \$18 million, most of which focus on single projects and are aimed at informing or influencing interim operational decisions by mission management concerning these activities. They often provide recommendations for project implementation improvements and may call for redesign or follow-on efforts. In some instances, they may call for project termination if performance is poor. USAID encourages participation of host country representatives on project evaluation teams.

Project evaluation findings are routinely shared with host country counterparts who are responsible for the project's implementation. Copies of the evaluations are also sent to USAID/Washington where they are entered into the Agency's development experience database (called the Development Information System or DIS) maintained by CDIE. They are on microfiche, abstracted, indexed and kept readily available for others to use on request. The DIS, which contains abstracts of thousands of evaluation reports, is in the public domain and can be accessed by anyone. USAID managers and selected external users (e.g., LDC institutions, donor agencies, and universities through exchange agreements) have free access through the on-line DIS or via the CD-ROM product, the CD-DIS. A selection of special USAID evaluations are abstracted and advertized in a quarterly publication, "AID Research and Development Abstracts," which reaches a large audience of development practitioners around the world.

New evaluation guidance will encourage missions to focus more of their evaluations on groups of related activities that together aim to achieve a given program outcome or strategic objective. Seeking to complement PRISM, which tracks performance of program outcomes and strategic objectives, these new program evaluations will examine cause-and-effect between USAID activities, program outcomes and strategic objectives, to explain why performance was successful or not and to recommend management actions to improve program performance.

2. Evaluation in USAID/Washington

Most evaluations undertaken in USAID/W are conducted by CDIE, although regional bureaus and central bureau offices also conduct evaluations of special interest to their operations. CDIE's evaluations are fundamentally different in purpose and focus than mission-sponsored project evaluations. They are meant to influence senior managers' strategic decisions about policy and program directions and resource allocations worldwide. They also are used to report convincingly to

Congress and oversight agencies that USAID programs are achieving their intended development results. To meet these broad, strategic aims, CDIE evaluations focus not on individual projects but on whole "programs" (made up of similar types of projects worldwide, e.g., activities aimed at increasing child survival). Rather than focus on implementation issues or problems, CDIE evaluations examine results, i.e., issues of program effectiveness, impact, sustainability and efficiency (cost-effectiveness).

CDIE conducts about 15-20 primarily program evaluations each year that include topics like child survival, export promotion, agribusiness and microenterprise. A few CDIE evaluations examine USAID operational modes, management systems or cross-cutting themes, including topics such as using NGOs as implementing agencies, managing the policy reform process, technical assistance approaches and women in development.

CDIE evaluations employ a range of methodological approaches, including "rapid response" products produced in two to four weeks to meet urgent needs for reviews of experience; "desk studies" taking four to five months that systematically synthesize findings from existing evaluation reports and other relevant literature on a topic; and full-scale "field assessments" that may take more than a year to complete. Host country personnel are also contracted to supplement the U.S.-based teams. Information from these case studies is analyzed and the findings synthesized into a final report.

The Agency's annual report on program performance, prepared for senior management, draws on CDIE program evaluation findings. Abstracts of CDIE evaluations are available to USAID managers on-line in the Agency's Development Information System and summaries of their key findings and lessons will become available in a new automated Executive Information System (EIS) as well. The full texts of over 200 CDIE evaluations are now available on a CD-ROM.

XI. ASSOCIATED FINANCING AND RELATED ASPECTS

A. CAPITAL PROJECTS

An important dimension of USAID's broad-based economic growth strategy is a set of programs that encourage efficient private and public investments in infrastructure and the institutions that manage such investments. USAID's portfolio includes roads, ports, housing and urban infrastructure, water supplies, sewage and waste systems, electricity and basic human services to poverty-ridden countries.

In FY 1993, USAID invested \$335 million in annual funding for more than 60 infrastructure projects, primarily in Egypt, Central America, Southern Africa and the former Soviet Union. Most of USAID's funding came from the Economic Support Fund, with lesser amounts from Development Assistance, the Development Fund for Africa, and the Special Assistance Initiatives accounts. For FY 1994, USAID is planning to spend approximately \$400 million.

B. TIED AID AND RELATED ASPECTS

A number of donor agencies provide concessionary financing (low-interest loans) or mixed credits (grants mixed with commercial financing or official export credits) for capital projects. This form of financing requires that the capital goods be purchased from the country extending assistance. Tied aid is particularly evident in the capital project sector, e.g., telecommunications, power and transportation. Recognizing that this position was not tracking with accepted practice and that the "pre-eminence of market forces" policy stance was, in fact, disadvantageous to U.S. vendors, the U.S. modified its position. In 1995, a \$150 million Capital Projects Fund will become operational for financing capital projects overseas. The \$150 million represents the subsidy component of the fund, which is estimated to potentially support \$600 million in U.S. exports. The Exim-bank was charged with administering the fund. In early 1994 Exim took under consideration a draft document of policies

and procedures concerning the Tied Aid Capital Projects Fund. The draft contains the principles governing use of the fund, procedures for making conditional offers and information on loan structuring and processing.

Generally, the procedures that Exim is planning to implement would permit the new fund to be used to balance out other donor agencies' tied aid offers that are permissible under the OECD agreement, instead of only matching tied aid offers that are in violation of the agreement. Further, the new fund could be used to counter the offers of other donors that are not reported as a part of the OECD's notification process, provided that certain criteria are met.

XII. PROCUREMENT POLICIES AND PRACTICES

USAID's procedures for procurement by recipient countries are consistent with the "Minimum Conditions for Effective International Competitive Bidding." Over the last few years, USAID established a requirement for assessing the procurement capability of the recipient country's contracting agency before authorizing it to undertake procurement in excess of \$250,000. The Agency also increased the number of approvals required at various stages in the procurement process. USAID hopes to ensure consistently better procurement through this means.

XIII. SECTOR ORIENTATIONS OF AID

A. FOOD SECURITY AND FOOD AID

Although worldwide per capita calorie consumption has risen over the past 20 years, there are still more than tens of millions of people who do not have access to sufficient food to meet their basic dietary needs to lead a productive, healthy life. To deal with the short-term aspect of the problem (viz., rapid response to emergency situations), USAID operates a substantial emergency food assistance program. In 1993, under P.L. 480 Title II (non-monetized food grant assistance), \$831 million in food was transferred to more than 92 million recipients. Approximately 48% of the Title II foodstuffs, servicing over 6 million refugees, was directed toward emergency situations. Grants of agricultural commodities were extended to governments of least developed countries under Title III (monetized food assistance) of the P.L. 480 program. These commodities were valued at \$310 million in 1993.

To address the long-term dimensions of the problem (i.e., seek a permanent solution to it and thereby promote sustainable development), USAID is engaged in a linked set of activities designed to enhance: (1) the performance of agricultural input and output markets; (2) income generated by farm and off-farm enterprises; (3) public sector capability to undertake policy analysis and implementation; (4) technology development and dissemination; and, (5) nutritional quality and use of food. Representative examples of the Agency's undertakings include USAID's longstanding support to international agricultural research institutions and its widespread involvement in policy reform efforts. In addition, USAID is actively engaged in agricultural market development, employment generation, technology diffusion and nutritional improvement projects throughout the developing world. To illustrate the linkage (in order to create synergies among investment to enhance impact) among USAID initiatives, examples of these sorts of projects are included below in the description of other sectoral programs such as agriculture and the private sector.

B. AGRICULTURE AND RURAL DEVELOPMENT

The level of funding made available from USAID DA and DFA accounts for agricultural activities will decline from approximately \$528 million to \$400 million in 1994, a function of the stringent budget situation faced by all USG agencies and the difficult choices that must be made within these fiscal

limitations. Nevertheless, given its direct and significant influence on sustainable development, agriculture remains a priority area for U.S. economic assistance. Developing countries require science-led agricultural development that supports the cultivation, production and processing of crops and raising of animals useful to society, while protecting and preserving the natural resource base.

In this context, the United States supports agricultural interventions that:

- fund agricultural research that will continue to explore, develop and disseminate new methods and techniques to address food security, preserve the natural resource base and support sustainable economic growth;
- encourage efficient, low-cost and sustainable production of food and other crops for local consumption and export;
- promote participation of local groups, including PVO/NGO and cooperative movements that empower local people in the decision-making process concerning the agricultural sector; and,
- provide food assistance, including targeted food assistance, to people currently unable to exercise market demand, with particular attention to children and women in low-income families.

The following are examples of projects contributing to USAID's sustainable development objective:

In Senegal, the regionally managed Agricultural Policy Analysis Project (APAP-Phase III) is enabling USAID, in conjunction with the World Bank and the Senegalese, to carry out a structural adjustment program for rice to improve the market structure, farmer income, and divestiture and privatization of parastatal rice marketing firms. In Jordan, the same project is being used to help the government develop a new agricultural policy charter that will improve the policy environment in the agricultural sector. The results are expected to improve farmer income, agricultural productivity and market competitiveness in the region. The Sustainable Agriculture and Natural Resource Management (SANREM) and Integrated Pest Management (IPM) Collaborative Research Support Projects (CRSPs) are new efforts that take an integrated problem-solving approach to agricultural sector issues. In these programs there is substantial involvement in both the planning and implementation activities by local farmers, local communities and international PVO/NGO organizations.

C. PRIVATE ENTERPRISE DEVELOPMENT

The objective of USAID's private enterprise program is to mobilize and increase the participation of the private sector in the economic, social and political development processes. The program is founded on the belief that developing countries that have achieved and sustained the most impressive broad-based economic growth are those that have promoted the expansion of their private sectors and free-market systems, improved their systems of governance and fostered widespread participation by the population at large in all dimensions of economic and civic activity. In short, there is a positive correlation between political liberalization and economic growth.

USAID's private enterprise program is designed to promote the creation of a climate conducive to economic democracy rather than to finance individual business transactions per se. Other elements of the USG, e.g., the Department of Commerce and the Overseas Private Investment Corporation, are focused on the transactions dimension of private sector development. However, as USAID moves into its programming cycles for 1995 and beyond, there will be increased emphasis on targeting resources on the enabling environment, human resource development, privatization and microenterprise development. Discussions of the enabling environment and human resource development are found elsewhere in this report, therefore, only privatization and microenterprise development are discussed

below.

1. Privatization

USAID initiated its privatization efforts in 1985 and since then has helped to develop privatization strategies in numerous developing countries. Initially, work was centered in Latin America (Costa Rica and Honduras), and North Africa (Tunisia). Subsequently, demand for privatization programming arose in Central and Eastern Europe (Poland and the Czech Republic), the New Independent States and Asia (India and Nepal). Most recently there has been increasing interest from sub-Saharan African states (Zambia, Zimbabwe, Guinea, Uganda and Gambia). Typically, USAID involvement in privatization activities is carried out in conjunction with other donors, multilaterals and bilaterals, and is usually a part of a comprehensive structural adjustment initiative. While experience has proven this to be an arduous programming field, there is evidence of success. For example, Honduras, with significant USAID support, has been able to privatize more than 90 state-owned concerns. In the process, productivity for those sectors that have been revitalized has increased significantly and the State has saved millions that were dedicated in the past to support moribund operations.

In the future there will be a slight modification to USAID's privatization strategy. Increased attention will be given to unbundlings of large concerns and to directing the "spin-off" industries to small and microentrepreneurs.

2. Microenterprise Development

Although USAID has long been active in the microenterprise area, the subsector has taken on an added dimension with the recent launching of a new microenterprise initiative. Through this initiative, USAID is seeking to raise microenterprise to a level of priority which is commensurate with its importance to the poor.

The microenterprise initiative is based on a linked set of underlying principles which includes: a commitment to significant outreach (i.e., expansion of the universe of microenterprises that have access to necessary financial and other business services); partnership with both other donors and local organizations; a continuing focus on women and the very poor; and sustainability and financial self-sufficiency.

The objectives of the initiative are to:

- (1) assist the poor to increase their assets to enable them to improve both their standard of living and the quality of their lives;
- (2) increase the skill and productivity base of the economy to enhance the economy's capacity to grow; and,
- (3) assist in the growth and development of local organizations to enhance their capacity to promote participatory economic development.

Progress toward achievement of these objectives will be measured in terms of a specific set of results. For example, program monitoring will gauge increased access by the poor to credit and savings services provided by many types of sustainable financial institutions. The initiative will seek to catalyze major changes in the effectiveness, efficiency and scale of services provided. Attention will also be given to devising schemes to provide non-financial services (e.g., technical assistance and management training) to microenterprise entrepreneurs in more cost-effective ways. Measurement also will be taken of improvements in the enabling environment through policy change (e.g., legal and

regulatory framework, deregulation, tax code, financial sector reform) and access to public services.

Finally, the program will monitor progress in improving the capacity of local organizations (e.g., NGOs, cooperatives, associations) to have a voice in the policy formulation process. In seeking to generate these results, the Agency will employ a balanced mix of programming vehicles. Projects will furnish seed capital, credit, technical assistance and training to both local intermediary organizations and microenterprise entrepreneurs. In addition, USAID, in collaboration with other donors, will engage cooperating governments in policy dialogue to improve the conditions for microenterprise development.

D. ENERGY

USAID's energy program plays an increasingly important role in providing innovative approaches to solving the energy, economic and environmental problems in developing countries and the former Eastern bloc nations. USAID joins forces with multilateral and bilateral donors and the private sector to increase energy efficiency and expand energy services, enhance the role of private power and implement novel approaches through research, adaptation and innovation. These approaches include improving power sector investment planning ("least-cost" planning) and encouraging the application of cleaner technologies that use both conventional fossil fuels and renewable energy sources. Promotion of greater private sector participation in the power sector and a wide-ranging training program also help to build the institutional and regulatory infrastructure necessary to sustain cost-effective, reliable and environmentally sound energy systems.

Much of the Agency's strategic focus supports recently enacted Congressional legislation directing USAID to undertake a "Global Warming Initiative" to mitigate the increasing contribution of key developing countries to greenhouse gas emissions. USAID also helps developing countries speed their economic development through promoting technology cooperation between U.S. suppliers and developing country companies, institutions and governments. This effort involves technologies and services that have a positive impact on the environment and on economic development in developing countries; innovative finance; and policy development assistance to developing countries as they pursue policy and regulatory changes to provide market incentives for environmentally beneficial technologies.

E. ENVIRONMENT

Environmental problems increasingly threaten the economic and political interests of the United States and the world at large. USAID pursues two strategic objectives in the environmental area:

- Reduce the long-term threats to the global environment, particularly loss of biodiversity and climate change; and,
- Promote sustainable economic growth locally, nationally and regionally by addressing environmental, economic and developmental practices that impede development and are unsustainable.

The emphases of the USAID environmental strategy are to: (1) globally, target the growing sources and diminishing sinks of greenhouse gas emissions and the impoverishment of the planet's biological diversity at the genetic, species and ecosystem levels; and (2) locally, focus on such issues as the impairment of human health because of air, water and soil contamination; the unsustainable exploitation of forests, wetlands, coastal zones, coral reefs and other ecosystems that provide vital ecological services; and degradation and depletion of water resources.

USAID pursues global climate change goals by assisting countries in reducing emissions of greenhouse

gases and expanding carbon sinks by promoting and implementing energy efficiency technologies, renewable energy facilities and low carbon-emitting systems through the private sector; fostering sound forestry, agriculture and natural resources management that limits deforestation and other carbon-emitting land use changes; and implementing advanced information technologies to stimulate expanded technology cooperation.

The Agency's expanding work in biodiversity conservation reflects strategic shifts and evolving technical treatments to make USAID's assistance programs more effective and more results-oriented. Program initiatives at all levels (donor coordination, policy dialogue with host country counterparts and project interventions) now place more emphasis on ecosystem management approaches, in situ conservation of priority areas and the local socioeconomic context of biodiversity conservation project design and implementation.

USAID's urban environmental assistance responds to increasing urbanization problems with capital financing, technical assistance and training. This assistance promotes sustainable developing country policies that improve municipal and urban environmental management, expand affordable shelter, water and sanitation services, increase access to housing finance and create lasting governmental partnerships with the private sector. The underlying principle is to rely on individual initiative, market forces and the private sector to deliver urban services and to produce shelter.

USAID pursues an integrated approach to environmental issues as outlined in Agenda 21 of the UNCED (Earth Summit) guidelines for ecologically sustainable development. The causes of environmental degradation often are the result of underlying pressures of poverty and rapid population growth. Programs in every sphere of development - environment, economic growth, population and health and democracy - must be designed with conscious regard for their impact on the natural environment and their potential for improving environmental stewardship locally, nationally, regionally and globally.

F. POPULATION AND HEALTH

USAID's objectives in population and health are to:

- Promote the rights of couples and individuals to determine the number and spacing of their children;
- Improve individual health, with special attention to the reproductive health needs of women and adolescents and the general health needs of infants and children;
- Reduce population growth rates to levels consistent with sustainable development; and,
- Make programs responsive and accountable to the end-user.

USAID programs will contribute to a cooperative global effort to stabilize world population growth and to support women's reproductive health. Consistent with U.N. projections, this effort should result in a total world population of between 8 billion and 9 billion by the year 2025, and less than 10 billion by the year 2050, with very low growth thereafter. Over this decade, USAID also will contribute to the global health goals of halving current maternal mortality rates, reducing child mortality rates by one-third and decreasing the rate of new HIV infections by 15%.

1. Population

One of the most effective solutions for achieving the aforementioned objectives is by increasing access to family planning information and services. USAID has a long-established track record in the field of

population, with its strong field presence, network of U.S. cooperating agencies representing the best the United States has to offer in expertise in population, focus on service provision and technical leadership. Under USAID's population and health strategy, support for family planning systems and services is by far the most cost-effective intervention to help couples and individuals achieve their desired number of children and slow population growth. Family planning is the foundation that must be further strengthened and upon which the Agency will build new activities. In many settings, family planning programs can be broadened to include selected reproductive health interventions that will not diminish the family planning effort but will improve program impact and address important women's health needs.

This sustained and significant level of programming in population has had an impact, and there are tangible results. In the 28 largest recipient countries of USAID population funds, the average number of children per family has decreased from 6.1 in the early 1960s to about 4.2 today, a 31% decline. By 1993, well over 50 million couples used family planning as a direct result of USAID assistance. In addition, USAID has pioneered efforts to increase private sector commitments to family planning, introduced new service delivery mechanisms such as social marketing and supported the introduction of new technology like the Copper-T 380 IUD and Norplant.

USAID will continue to play an active role in the population field. The Agency will build on progress made to date while simultaneously striking out in new directions. For example, USAID is formulating a revised population policy and strategy and is substantively involved in the preparations for the 1994 International Conference on Population and Development (ICPD) in Cairo. In addition, USAID will renew its participation in important multilateral population organizations such as the United Nations Population Fund (UNFPA), the International Planned Parenthood Federation (IPPF) and the World Health Organization's Human Reproduction Programme (WHO/HRP). The Agency also is engaged in policy dialogue with other governments to mobilize increased resources for population and reproductive health activities.

2. Health

USAID's focus in the health sector will remain child survival, an area in which the challenge is still formidable, despite impressive gains made since 1985. To assure sustainability and to accelerate progress in this area, new emphasis will be placed on improving support systems that underlie the effective delivery of child health services as well as family planning and other health care. USAID's overall goal is to assure that every country it assists develops its own capacity to address the priority health needs of its children.

As a result of assistance from the donor community, including USAID, since 1985 the infant mortality rate (IMR) has dropped more than 10%; immunization rates have increased to over 80 percent in many countries; polio has been eradicated from the Americas; and the lives of 1 million children a year are saved through the use of Oral Rehydration Therapy (ORT).

Under the new strategy, USAID is working with other donors to assure that 90% of the world's children receive measles vaccination, leading to a reduction of measles cases by 90 percent and measles deaths by 95% by the year 2000; that polio is eradicated by the year 2000; that 80 percent of the world's children have access to life-saving treatment for diarrhea and pneumonia; that vitamin A and other micronutrient deficiencies are eliminated throughout the world through sustainable means; and that breast-feeding is established as the most important food for young infants worldwide.

Accomplishing these goals depends on improvements in institutional capacity, staff training, policy reform, management and financing, and assuring the quality of delivered services. In addition, USAID will continue to promote a broader, cross-sectoral approach to health and well-being by supporting

activities that promote adequate nutrition for children (e.g., adequate quantity and quality of food). This includes promotion of optimal infant feeding, particularly breast-feeding, and food-based approaches to improve micronutrient intake.

3. Acquired Immune Deficiency Syndrome (AIDS)

In FY 1993, USAID provided more than \$124 million in financial support and technical assistance to advance HIV/AIDS prevention and control efforts worldwide. Approximately 30% of the Agency's funding for the programs supports the World Health Organization's Global Programme on AIDS. WHO's program assists developing countries prepare national HIV/AIDS prevention plans, providing policy, technical and strategic guidance, a complementary role to that of USAID in program implementation. The United States supports efforts to strengthen coordination of U.N. assistance in this area through formation of a co-sponsored program on AIDS, involving UNICEF, WHO and UNDP. USAID also supports bilateral HIV/AIDS prevention programs and activities in more than 30 countries.

G. EDUCATION AND HUMAN RESOURCES DEVELOPMENT

Improving human capacity to participate fully in all domains of economic and civic society is one of the main engines of sustainable development and one of the measures of the success of sustainable development. The components that make up the Education and Human Resource Development plank of the USAID strategy include basic education for children, support for university development, and technical and academic training for individuals in selected fields.

USAID support for basic education gives priority to reform and expansion of primary and lower secondary education, including interventions to support early childhood development, and continues with skills training for adolescents not yet in the work force and adult education, with emphasis on basic life skills. In all programs, USAID is giving particular attention to the education needs of girls and women and has made the reduction or elimination of gender disparity one of its priority objectives for education and human resources development.

USAID basic education programs emphasize support for comprehensive reform, usually by supporting national plans of action for education reform, capacity building and policy reform. There is always close coordination with other donors and funding agencies. Most programs include elements to strengthen planning, management and administrative capacities, including information systems and analytical capacities for monitoring systems improvement; teacher training, including in-service training for principals and administrators; and improvement of the supply of basic materials. USAID also supports experimentation with the use of interactive media to support and augment instruction, particularly interactive radio. USAID continues a long-standing program of support for development communications, using mass media and adult education technologies to increase public awareness and support behavior change. Such efforts have taken place in basic health issues, narcotics awareness, environmental awareness and civic education in support of democratic transitions.

H. DEMOCRACY, PARTICIPATORY DEVELOPMENT AND GOOD GOVERNANCE

The USG, principally through USAID but with the involvement of other federal agencies such as the Department of Justice, has a relatively long history of involvement with democracy or rule of law programming. For example, for more than two decades USAID has assisted the development of grass-roots cooperatives. While this programming was originally viewed exclusively from a development economics perspective (i.e., establishment of credit unions and promotion of programs which broadened economic participation), it did contain many political elements of democracy, governance and civil society (e.g., election of organization officials, local self-rule). Similarly, USAID's participation in structural adjustment programs, while again eyed mainly through an economic development prism,

generally has paid considerable attention to issues related to the rule of law (e.g., formulation of land-related legislation and investment and commercial codes and design of banking laws related to transparency) and enhanced governance (viz., improved public sector accountability and operational efficiency). Since the mid-1980s, USAID and other USG agencies have been active partners in administration of justice initiatives, most notably in Latin America. Beginning at about the same time, USAID also assumed an active role in responding to host country requests to assist with transitions to democratic rule. Again, most of the initial demand for this type of programming was generated by Latin America (e.g., Honduras, El Salvador, Guatemala). Subsequently, however, there was a marked increase in electoral assistance requests from other regions of the globe - Africa (viz., Zambia, Botswana and Ghana) and Central and Eastern Europe and the CIS.

Democracy and good governance are essential for sustainable, broad-based economic growth. These areas now form a strategic objective of U.S. foreign policy. This objective is being achieved through the establishment of democratic institutions, free and open markets, an informed and educated populace, a vibrant civil society and a relationship between state and society that encourages pluralism, inclusion and peaceful conflict resolution. USAID is supporting activities to promote constitutional mechanisms, including technical and organizational assistance to constitutional conventions; democratically elected legislatures; legal systems including independent judiciaries and civilian-controlled police; credible and effective elections; organizations that protect human rights; trade unions, professional associations, women's groups, educational entities and a wide range of indigenous organizations; independent media outlets; organizations that improve government accountability at all levels (national, regional and local); and educational efforts for children and adults that reflect community participation.

USAID, at every opportunity, seeks the active collaboration of other donors and international organizations in promoting this area of assistance. For example, USAID is actively engaged with the World Bank in developing a governance agenda that will be part of the SPA initiative. The U.N., the Organization of American States and the Conference on Security and Cooperation in Europe are committed to helping member states respond to requests for assistance in the democratization process. USAID is coordinating with these entities on planning and programming. In addition, many of these organizations are enhancing their ability to support democracy building. USAID will give strong consideration to assist them in that endeavor.

USAID is undertaking a significant monitoring and evaluation effort to gauge progress in meeting defined objectives. In addition, the Agency is increasing its emphasis on learning practical and applicable lessons from donor experience. The USAID publication, "Weighing in on the Scales of Justice: Strategic Approaches for Donor-Supported Rule of Law Programs," is an example of the manner in which USAID is disseminating information relative to the rule of law. USAID intends to have similar data diffusion vehicles available for other fields in this sector.

I. NARCOTICS ABUSE AND PREVENTION

A November 1993 policy determination by the President of the United States directed that all international counternarcotics programs be coordinated and budgeted by the Department of State's Bureau for International Narcotics Matters (INM). This will lead to better coordination of economic assistance, administration of justice programs and military aid and training.

The new policy recognizes that broad-based growth with equity is the best long-term solution for addressing counternarcotics problems in developing countries. USAID's principal role is to design and implement sustainable development programs within the framework of indicative planning levels for economic assistance from INM. Programmatic methods continue to include alternative development (including macroeconomic assistance), narcotics awareness and education, and administration of

justice programs.

The current focus of USAID counternarcotics efforts is in Latin America, with Bolivia, Peru and Colombia receiving most of the funding. FY 1993 and FY 1994 appropriations for the economic assistance component of counternarcotics activities were \$130 million and \$35 million, respectively.

J. DISASTER ASSISTANCE

USAID considers disaster assistance as integral to the achievement of sustainable development, given that a disaster can eradicate in an instant years of development progress. Similarly, civil conflicts can, in short order, destroy established and functioning social, political and economic institutions, thereby, immeasurably setting back the development process. USAID provides disaster assistance in a variety of country contexts, responding to natural and man-made disasters in any country where there are people at risk, both in USAID and non-USAID assisted countries. Key types of humanitarian assistance activities include:

Disaster prevention, mitigation and preparedness (PMP) programs, vital because they sharply reduce human impact and costs of disasters. Discrete activities under this program subset include cyclone warning systems, volcano monitoring and evacuation plans, earthquake risk management, famine mitigation and training in disaster management.

Emergency relief in response to "quick onset" natural disasters such as earthquakes, floods and volcanic eruptions. Relief supplies and services include communications support, search and rescue, medical assistance and emergency shelter, food and potable water. Disaster Assistance Response Teams (DARTs) also may assist with administration, coordination, logistics management and other specialized skills.

Rehabilitation measures to restore stability and a basic level of self-sufficiency, linked to development programs whenever possible, to assist populations return to a development path.

Complex, prolonged disasters such as droughts and civil strife have demanded an increasing proportion of the Agency's resources. Many of these situations are the result of civil, ethnic and religious conflicts, characterized by social upheavals that erode vital infrastructure and the basic institutions of society. Chronic food security problems also are often exacerbated. These situations call for a wide range of responses in which disaster relief activities are frequently coupled with emergency feeding programs as well as elemental commodities (e.g., seeds, fertilizer and simple tools) to begin to restore basic food security. USAID will begin to implement more programs in the "disaster/development" continuum, such as reconstruction and institution building activities, to help return the affected country or region to growth and development. Where there is a USAID presence, humanitarian assistance and development assistance programs must be closely coordinated. Many of the complex, prolonged disasters, both man-made and natural, do not respect national borders; a truly regional approach is needed to tackle them, often requiring interdepartmental and intra-regional coordination.

Countries emerging from a prolonged conflict or complex emergency require creative types of assistance to revitalize their societies, rebuild their institutions and preserve national order so that they can return to the path of sustainable development. In response to this need, USAID has launched a new Transition Initiative which combines humanitarian assistance and development approaches to carry out programs such as the reintegration of dislocated populations, including demobilized soldiers; the restoration of elementary security and infrastructure; and the creation of viable political institutions. In many cases, these activities will be undertaken in countries where USAID does not have a traditional mission and will be implemented by a new Office of Transition Initiatives within the Bureau for Humanitarian Response.

K. RESEARCH

USAID has established an Agency Research Council to provide a systematic way to review and coordinate its research policy, priorities and portfolio. The council will establish and maintain a comprehensive policy to guide USAID-funded research to promote sustainable development. Among the activities of the council will be identifying of research priorities; facilitating and supporting new initiatives and maintaining ongoing research programs within the context of USAID strategic goals; coordinating research objectives and disseminating research results with the public and private sectors; establishing a research prioritization mechanism to inform the budgetary process.

XIV. WOMEN IN DEVELOPMENT

A. PROGRAM AND PROJECT OBJECTIVES

Through a vast Women In Development network which extends to all field posts, USAID provides assistance in integrating gender issues into project and program design, implementation and evaluation to support USAID's strategic areas of emphasis. For example, to enhance its gender equity performance with respect to protecting the environment, the Agency is conducting a series of studies that are examining men's and women's participation in sustainable agriculture, natural resource management and related community institutions. Projects in a number of USAID country programs (e.g., Tunisia, Yemen, Malawi and the West Bank/Gaza) to develop grassroots organizations to promote women's rights as well as the participation of women in the political processes are in full implementation with more planned for the near future. Family planning and health investments have and will continue to focus on the health status of women. An added dimension to this area of programming will be interventions to address women's vulnerability to HIV-AIDS in Africa, Asia and Latin America. Particular emphasis will be given to broadening the access of women to entrepreneurial initiatives (e.g., credit and business development projects) and increasing women's participation in basic education and adult skills training programs.

B. MONITORING AND EVALUATION

In line with USAID's emphasis on managing for results, the USAID/W WID Office continues to work closely with the Center for Development Information and Evaluation and the regional and central bureaus to ensure that gender issues are addressed and gender disaggregated data is collected for monitoring and evaluation at both the program and the project levels. In collaboration with the WID Office, CDIE conducted gender analyses of the strategic Management Framework Database for tracking Agency performance in 1992 and 1993. The WID Office is conducting "best practices" studies to document the factors contributing to effective integration of gender issues in USAID country programs with positive effects on women's lives.

The Office of International Training (OIT) tracks U.S.-based training participation by gender with a goal of reaching 50% female participation. Currently 29% of the trainees are women. OIT's assessment of the impact of training policies on female participation rates was the basis for revisions of Agency guidelines to eliminate regulatory constraints on female participation. OIT will send quarterly performance letters to field missions, including data on percentages of women trainees by sector.

C. TRAINING AND INFORMATION SERVICES

1. Training

Many Washington and field missions have co-funded gender training provided by the WID Office for USAID staff and development partners. In 1993-1994, the WID Office developed and implemented

a training series for project implementors on gender issues in USAID's strategic areas. Gender training for USAID staff in Africa focused on strategic planning, monitoring and evaluation. Training also addressed HIV-AIDS, NGO Program and Project Management, Planning Workshops for Government Officers and NGO Assessment and Evaluation. The Office of International Training has integrated gender considerations into the goal and purpose of participant training. OIT has conducted gender training for its staff, field mission representatives, contractors and training providers.

2. Information Services

The WID Office is supporting an information campaign to heighten public awareness of the Fourth World Conference on Women and the NGO Forum. This includes a newsletter prepared and disseminated worldwide by INTERACTION, a U.S. coalition of NGOs. Since the 1980s USAID has provided legal rights education to marginalized women in all regions. USAID also is supporting the Worldwide Network newsletter on gender and the environment. As a part of a worldwide project supporting basic education, 1,200 documents on girls' education are being abstracted and entered into a database that will be widely accessible.

USAID continues to develop and distribute a wide range of gender issue materials. Recent examples include a handbook on the integration of WID into university curricula, tools for gender analysis in sustainable resource management, and a wall chart and a chart book on "Gender and Generation in the World's Labor Force," which stresses the need for gender disaggregated labor statistics.

Development assistance must address the specific needs of women in developing nations: health, housing, education, equal access to productive resources and employment, participation in society and empowerment. In their design and implementation, programs must take gender issues into account and pay particular attention to the needs of women in poverty. The ultimate success of USAID's work will be determined by the impact it has on the lives of the women and men it is designed to assist.

D. COORDINATION WITH OTHER DONORS

USAID is coordinating with the U.N., other donors, other USG agencies, and the worldwide NGO community to provide support for the Fourth World Conference on Women and the NGO Forum in 1995. The United States is also coordinating with other donors and NGOs to ensure that key women's issues are addressed at the World Population Conference in Cairo and the World Summit for Social Development in Copenhagen. In collaboration with the U.S. Bureau of the Census, USAID continues to host a donor coordination group on gender disaggregated databases. The WID Office is collaborating with FAO and UNDP to develop gender sensitive participatory project design materials.

XV. NON-GOVERNMENTAL ORGANIZATIONS

A. ROLE AND SHARE OF PVOS IN USAID PROGRAMS

NGOs are increasingly important partners in carrying out USAID's humanitarian and development programs in achieving sustainable development and in building the foundations of a civil society. Given the Agency's emphasis on participatory development, the role of U.S. PVOs and non-U.S. NGOs has taken on an added dimension. USAID has embarked on a concerted effort to increase the capabilities and broaden the scope of local NGOs, using American PVOs, so that they can serve as conduits for widespread involvement in social, economic and political processes while simultaneously acting as agents of sustainable growth. More than 400 U.S. PVOs are registered with USAID. During the period January 1992 through December 1992, 232 members of this group received support from the U.S. Government, totaling \$1.5 billion in the form of grants, contracts, U.S. Government-owned excess property, ocean freight subsidies and P.L. 480 donated food. For the same period, USAID-

registered PVOs generated over \$4.7 billion in non-U.S. Government support from private revenue and contributions, donated goods and services.

B. EVALUATION OF NON-GOVERNMENTAL ORGANIZATIONS

USAID currently is conducting two Agency-level evaluations directed at the roles of U.S. PVOs and indigenous NGOs in USAID-financed development activities. The first study will ascertain the circumstances in which PVOs and NGOs have been most effective in implementing USAID activities and to identify improvements that can be made in USAID regulations that govern the Agency's relationship with PVOs. The results of this research will be available before the end of this year. The second study is examining the role of indigenous NGOs in promoting popular participation in governance. The research will be completed by the end of this year, and the results will be made available early in 1995.

SECTION XVI. BROADER INSTRUMENTS OF DEVELOPMENT COOPERATION

A. INITIATIVE FOR SOUTHERN AFRICA

The goal of the Initiative for Southern Africa (ISA) is to assist Southern Africans restructure regional relations in a way that will ensure sustained economic growth and mutually beneficial cooperation. The ISA will facilitate positive and productive relationships between the public and private sectors, assist Southern African countries to improve their domestic environments for expanded private investment and trade, support regional cooperation initiatives that promote private sector growth and reinforce Southern African initiatives to forge common political values and approach democratic governance within a regional context.

The cornerstone of the ISA will be a regional Enterprise Development Fund that will promote development of commercially viable small and medium-sized indigenous businesses. A second component of the strategy will be promotion of a more rational use of regional infrastructure. It will emphasize coordinated investments, such as shared use and policy harmonization in priority sectors such as power, transport, telecommunications, water basin supervision and natural resources management. Additional components of the initiative include human resource development, coordination of policies to promote regional trade and investment, and promotion of regional networking among institutions engaged in civil society, governance and participatory democracy issues.

Guiding principles of the ISA will be maximum African involvement in planning, designing and implementing programs and strengthening of USAID collaboration with the donor community. USAID is seeking participation, advice and counsel of Southern African regional organizations, governments, institutions of civil society and other donors in the development of this initiative.

B. HORN OF AFRICA INITIATIVE

Strife, drought and chronic food shortages have the potential to create in the Horn of Africa a human crisis of unthinkable proportions. Drought conditions threaten virtually all of the countries (Burundi, Djibouti, Eritrea, Kenya, Rwanda, Somalia, Sudan, Tanzania and Uganda) in the region. While the bloodshed in Rwanda has dominated news media reports, civil conflict also continues in Somalia. Sudan and even in Kenya, long regarded as a center of stability in East Africa. Current estimates indicate that at least 20 million people are at risk.

Since the magnitude of this emergency became apparent in March 1994, the USG has taken a series of discrete measures. The United States has committed and programmed an additional \$214 million (\$143 million in food aid and \$71 million in projects) dollars to the region. USAID has authorized early

programming of up to 100,000 metric tons of FY 1995 food resources for emergency programs and has accelerated its scheduled food aid shipments in anticipation of additional needs by late 1994. Finally, USAID has carried out an emergency logistical infrastructure survey and disseminated the results to other donors and major relief organizations.

In addition to the above, the long-term causes of food insecurity and civil strife demand a strategic focus on sustainable development to assist governments to increase food yields, generate economic growth, decrease population growth and promote stable democratic institutions. Special attention must be given to the creation of governing institutions that are capable of managing societal conflict. Accordingly, the USG has called for the formation of a donor working group to develop jointly with Horn governments and regional organizations a comprehensive plan to address the short-, medium- and long-term challenges of relief, recovery and development.

C. NORTH AMERICAN FREE TRADE AGREEMENT

As part of the Agency's strategy for sustainable development in the LAC region, USAID supports policy reforms and other efforts that will lead to hemispheric trade expansion. Continued trade expansion, based on the experience with the North American Free Trade Agreement, contributes to increasing incomes and jobs in Latin American and Caribbean nations, the United States and other nations that are signatories of free trade agreements with the United States. Free trade creates a fabric woven by prosperous market economies and vital democracies.

To further stimulate trade and economic development in the region, USAID sustainable development programs offer technical assistance and training to help LAC countries implement systemic policy change to level the playing field and permit broader participation in their viable economic and trade-related enterprises. USAID's assistance is tailored to local needs and responds to tangible evidence of commitment to trade and investment liberalization.

D. UNITED STATES-ASIA ENVIRONMENTAL PARTNERSHIP

Launched in 1992, the United States-Asia Environmental Partnership (US-AEP) is a coalition of Asian/Pacific and American experts, NGOs and government institutions that fosters solutions to Asia's environmental problems using U.S. experience, technology and practice. The US-AEP coordinates the participation of 25 USG departments and agencies, thousands of businesses and numerous NGOs that work with 34 nations and territories in Asia and the Pacific. The USG, through USAID and other U.S. federal agencies (e.g., the Departments of Commerce and Agriculture), will contribute \$100 million in core funding to the US-AEP program between 1992 and 1996. Additional contributions of about \$400 million are expected from US-AEP's public and private sector partners.

This new program contributes to improved environmental conditions in Asia in several ways. Participants in US-AEP's fellowship, exchange and training programs, action teams and short-term missions are the nucleus of a new international network of environmental experts. The nine US-AEP Offices of Technology Cooperation in Asia are matching Asia's environmental needs with U.S. environmental technologies. US-AEP's Environmental/Energy Technology grants support numerous technology transfer agreements between the U.S. and Asian private sectors. US-AEP's Infrastructure Finance Advisory Service is providing U.S. environmental businesses with much-needed access to financial resources. Planning and implementation grants from US-AEP support biodiversity conservation in several Asian locations.

E. WEST BANK/GAZA INITIATIVE

The USG's strategy for the West Bank/Gaza (WB/G) is driven by the peace process and the transfer

of political authority to a new Palestinian entity. U.S. foreign assistance to the WB/G is influenced by the fact that no established Palestinian authority exists yet that can debate and make policy and there is no established bureaucracy with which the donors can interact.

USAID has developed six strategic objectives to address critical Palestinian political, economic and quality-of-life development problems. For each objective, USAID is working to ensure a public dialogue on policies, planning and implementation. USAID will contribute \$375 million to this effort during the next five years. In addition, OPIC will furnish a \$125 million loan guarantee.

Water Resources. Water sharing issues are being addressed under the bilateral and multilateral talks as part of the Middle East Peace Process. As chair of the Multilateral Working Group on Water, the United States will play a leading role in water issues, working closely with the Palestinian Economic Council for Development and Reconstruction (PECDAR) and other donors to ensure cooperation in this sector and to support for water protection policies, regulatory frameworks and responsible management systems.

Health Services. The new central Palestinian public sector authority for health will be responsible for developing plans for and coordinating health services for Palestinians in the West Bank and Gaza. These services will likely be delivered by both the public and private sectors, including NGOs and international donors. The USAID strategy is predicated on a participatory framework in both its design and implementation. This implies not only working closely with local NGOs, but involving the beneficiaries not simply as passive recipients of health care, but as active players influencing the supply of health services.

Housing. USAID is creating a housing forum to assemble NGOs, private sector groups and other interested parties to discuss housing issues. A home improvement loan and voucher program will be implemented with U.S. PVO support to the Palestinian Housing Council (PHC). The council will form a committee with substantial community membership to formulate program policies and make decisions regarding program beneficiaries. Additionally, USAID is working with the World Bank's Economic Development Institute on a project involving training of Palestinians for the development of a housing strategy. Formal and informal meetings have been held with current and potential donors to the housing and land sectors. USAID and the EU have agreed to meet and reach consensus on housing finance and cost-recovery policies, especially as they affect USAID projects with respect to the PHC. USAID will seek ways in which to coordinate with other donors on housing finance.

Private Sector. USAID's involvement with the private enterprise will concentrate on developing the capacity of local private sector associations to lobby effectively to create an enabling environment in which entrepreneurship can evolve and flourish. To this end, the Agency will work closely with the EU and other bilateral donors to assist a broad range of local groups concerned with such matters as land reclamation, agricultural production, integrated pest management and cooperative development. The USAID effort will be weighted toward promoting institutional development with relatively lesser concentration in other areas such as providing of credit.

Democracy and Governance. Democracy and governance issues lie at the heart of the Palestinian development problem. The central challenge is establishing of a viable Palestinian self-governing administration. Sustainability of progress in all technical sectors will depend on the ability to guarantee two critical requirements: a) broad public support for the emerging self-governing system, its officials and its policies; and b) social order and safeguarding public resources through the just implementation of the rule of law. Formal coordination with other donors on democracy-related assistance takes place in the field by USAID, the Consul General in Jerusalem and the Embassy in Tel Aviv. It is currently expected that both the EU and USAID will provide support to the Election Commission.

Municipalities. USAID is leading donor coordination in the municipal and housing sectors. It is planned that a UNDP representative will join the assessment team to ensure consistency in approach and coverage in the four municipalities identified for UNDP assistance. Initial consultations have been held with the World Bank and EU.

F. GENERALIZED SYSTEM OF PREFERENCES

The U.S. Generalized System of Preferences (GSP) provides preferential duty-free treatment to beneficiary countries to promote their development and their integration into the world trading system. The program covers a broad range of manufactured and agricultural goods, including nearly 4,400 products from 147 beneficiary countries and territories. The program excludes most textiles, watches, and certain leather goods, as well as other items determined to be import-sensitive, such as steel, glass and electronic articles. In 1993, the United States imported nearly \$20 billion of duty-free products under its GSP program, an increase of 17% over the figure for 1992. The 1992 level of \$16.7 billion was itself an increase of 22% over the 1991 level. GSP imports represented about 16% of overall U.S. trade with beneficiary countries in 1993.

The United States continued to expand the geographic coverage of its GSP program in 1993 and early 1994. Albania, Ethiopia, Kyrgyzstan, and Russia were designated as beneficiary developing countries under the program in 1993. Kazakhstan, Romania, South Africa and Ukraine were added to the program in the first half of 1994.

As a result of the 1992 GSP Annual Review, two new products (ethylbenzene and ferrosilicon chromium) were added to the GSP program in 1993. The United States imported about \$8 million of these products from eligible countries in 1992. Waivers of competitive need limits were granted to three products, valued at \$651 million.

With the initiation of the 1993 Annual Review, the U.S. Trade Representative underscored the Administration's commitment to enforcing the worker rights component of U.S. GSP legislation. A record number of ongoing worker rights reviews (15) were conducted in 1993. Seven intellectual property rights reviews were also under way in 1993.

XVII. RELEVANT BROADER POLICIES AND COHERENCE OF NATIONAL POLICIES TOWARDS DEVELOPING COUNTRIES

As in other industrialized countries, the USG provides mechanisms for consultations among the various agencies whose legislated mandates and institutional interests are affected by the outcome of policy decisions. In the case of policy decisions that impinge upon developing countries, USAID works to ensure that the process takes into account the interests of the developing countries and the growing importance of the developing countries in the world economy. USAID is particularly active in the review of country and product eligibility under the Generalized System of Preferences, as well as on issues of debt and tied export credits.

U.S. policy on foreign investment has long emphasized the principles of national treatment and right of establishment, both with respect to inward and outward flows. Foreign direct investment has proved to be a powerful conduit of technology transfer to the developing countries; this is particularly true for countries that invest in education and promote vigorous competition among foreign and domestic firms, creating fertile conditions for absorbing and adapting improved technologies.

Similarly, U.S. trade policy has emphasized the importance of reduced barriers to imports of goods and services, as well as the elimination of export and production subsidies that distort international markets. These principles have guided U.S. participation in the Uruguay Round. On the other hand,

Congress has entrusted the Executive Branch with implementing legislation that provides various forms of administrative and legal remedies to domestic firms claiming injury from unfair trading practices on the part of foreign competitors, whether in developing or industrialized countries. These remedies include the mechanisms for investigating and addressing claims of foreign dumping and subsidies.

The frequency of claims under such proceedings, the costs imposed on foreign suppliers, and the evidentiary standards used have all elicited charges that the United States, in particular, fails to follow the free-trade principles that it urges upon the developing countries. However, this perception reflects the peculiarly open nature of the U.S. system for handling such complaints: processes that take place behind closed doors in most parliamentary democracies instead take place in open hearings and leave an extensive paper trail in the United States. The Uruguay Round agreement should help impose further discipline on governments' response to protectionist pressure from domestic producers, both in the developing and in the industrialized countries.