



**MEMORANDUM OF THE UNITED STATES
TO THE
DEVELOPMENT ASSISTANCE COMMITTEE**

Aid Review for 1991-1992

**U.S AGENCY FOR INTERNATIONAL DEVELOPMENT
JUNE 1992**

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I. INTRODUCTION

A. Major New Policy Orientations

United States foreign assistance programs continue to operate within the context of the foreign policy objectives for the 1990's enunciated by the President and the Congress under the FAA. These objectives are to:

- promote and consolidate the emergence of democratic values in the developing world;
- build strong, market-oriented economies in LDCs;
- promote peace to help achieve the stability essential for economic growth and political freedom;
- support cooperative international efforts to address transnational threats and problems such as environmental degradation, drug trafficking, and terrorism; and
- meet urgent humanitarian needs by responding quickly to alleviate suffering through disaster assistance, food aid, and refugee assistance.

Within this framework, the core mission of U.S. foreign economic assistance programs remains economic development to help our global neighbors to become active and constructive partners in the new world community. Our objective is to help developing countries and emerging democracies expand opportunities, increase incomes and improve the quality of life for their citizens. On this foundation, the United States can help build strengthened international cooperation to expand markets, reduce international conflict and resolve common world problems.

To achieve this objective, the bilateral foreign economic assistance programs administered by the Agency for International Development (A.I.D.) will concentrate on the following three areas:

1. Support for economic and political reforms that will generate employment, promote sustainable and environmentally sound growth, and encourage political freedom and good governance;
2. Investments in human resource development, reductions in high population growth rates, and responses to natural and man-made disasters; and

3. **Strengthening the institutions and developmentally sound and economically viable physical infrastructure necessary to expand the production of goods and services.**

A.I.D. efforts are focused on individual developing countries and emerging democracies. Consequently, A.I.D. field missions are the driving force of the Agency. These missions have the responsibility for determining the appropriate response in each of the three broad program areas identified above. They are charged with designing, implementing and monitoring individual projects and programs.

B. Recent Developments in A.I.D. Policy

During the past few years, A.I.D. has often searched to redefine its strategic direction but has been subject to a proliferation of objectives. Resolving this constraint was one of the major motivating factors for the reorganization carried out during 1991. To reduce this constraint a new Policy Directorate was established, charged with defining Agency development policy and objectives, assisting in operationalizing policy in bureau and field mission programs, and monitoring results.

The new Policy Directorate is organized around four functional clusters:

1. Strategic Planning, charged with identifying and articulating strategic direction and the policy choices A.I.D. will face during the 1990's;
2. International Donor Programs, the Agency's eyes and ears working with bilateral and multilateral organizations to articulate commonly held perspectives on development problems and agreed upon interventions;
3. Policy Analysis and Resources, which deals with the day-to-day tasks needed to articulate, disseminate, and monitor policy. This unit follows the fiscal implications of policy statements and determines the policy ramifications of resource use and budget legislation; and,
4. Development Information and Evaluation, which assists implementing units in identifying strategic objectives, developing effective ways to measure performance and report on results, and undertakes systematic evaluations of key program, operational, and management issues.

The directorate is leading an Agency-wide effort to define A.I.D.'s agenda for the 1990's. The goal here is to delimit and more precisely define A.I.D.'s core objectives, rather than to further expand an already long list of priorities and concerns.

While considerable policy attention has been given to A.I.D.'s future agenda, today's development problems have not been ignored. Fundamental to the successful implementation of A.I.D. policy is the need to establish priorities and concentrate on doing fewer things but doing them well.

A key policy area has to do with choices about which countries to assist. Over the past year, the United States has mounted a major effort to assist the Newly Independent States (NIS) of the former Soviet Union. U.S. programs there are organized around six priority areas: Emergency and Humanitarian Assistance; Democratic Initiatives; Health and Human Resources; Economic Restructuring; Private Sector Initiatives; and Energy, Environment, and Technology. Organizationally, the United States has formed a task-force that is operating in Washington, and intends to have A.I.D. field operations set up and fully operational this summer. A.I.D. will establish field missions in four locations: Moscow; Kiev in Ukraine; Alma Ata in Kazakhstan; and Yerevan in Armenia.

With the advent of programs in NIS, emerging democracies in Africa such as Angola and Ethiopia; and the potential for changes in Indochina, A.I.D. must develop the flexibility to respond to emerging new priorities. Accordingly, the United States is reviewing the scope for reducing the number of countries in which A.I.D. maintains full programs and field missions. A.I.D. is looking at the feasibility of downsizing its operations in countries which are not utilizing U.S. aid effectively and phasing out of countries which seem to have reached a point of self-sustaining growth. A.I.D. is also seeking to greatly improve the focus of its field programs, by requesting missions to focus on two or three key development objectives and to concentrate on achieving results rather than just accounting for costs.

II. THE VOLUME OF OFFICIAL DEVELOPMENT ASSISTANCE

A. ODA Disbursements and Commitments in 1990

In 1990, U.S. net disbursements of official development assistance (ODA) rose to \$11,395 million from \$7,676 million in 1989. This was primarily due to an increase in contributions to multilateral organizations and a debt forgiveness package extended to Egypt. The 48% increase in volume of U.S. ODA contributed to an increase in the U.S. share of total DAC ODA to 20% in 1990 up from 17% in 1989. U.S. ODA as a percent of GNP rose from 0.15% in 1989 to 0.21% in 1990.

U.S. bilateral ODA disbursements increased by \$1,540 million, from \$6,827 million in 1989 to \$8,367 million in 1990. Bilateral grants increased both in volume (\$8,530 million in 1990 versus \$6,791 million in 1989) and as a percentage of bilateral ODA (101.9% in 1990 as compared with 99.5% in 1989). The 1990 portion (\$1.2 billion) of the recorded debt forgiveness for Egypt was a large factor in the increase in bilateral grants. Net disbursements of bilateral loans fell from (+)\$36 million in 1989 to (-)\$163 million in 1990. A reduction in loans disbursed under the Foreign Assistance Act (FAA) and an increase in principal collections implementing debt forgiveness under FAA Section 572 accounted for the fall in net bilateral loans. Food aid loans increased 4%.

Contributions to multilateral organizations increased because almost all (\$1,307 million) of the 1989 fiscal year capital subscriptions to multilateral development banks were issued in the October-December quarter of 1988 and were therefore picked up in 1988 DAC reporting. Consequently, 1989 DAC calendar year reporting for contributions to multilateral development banks was extremely low (\$65 million), pulling total 1989 net ODA down by over \$1 billion. All fiscal year 1990 issuances of capital subscriptions (\$2,094 million) were issued in calendar year 1990.

ODA commitments for 1990 totalled \$23,419 million, up 266% from the 1989 total of \$8,808 million. ODA bilateral grant commitments increased \$12,266 million from \$7,505 million in 1989 to \$19,771 million in 1990; \$11,249 million in debt forgiveness extended to Egypt accounted for most of the increase. FAA grants, which increased by \$936 million from 1989, accounted for the remainder of the increase in bilateral grants. As was the case with disbursements, multilateral commitments also increased, from \$937 million in 1989 to \$2,973 million in 1990, because capital subscriptions issued to multilateral development banks increased by over \$2 billion.

Table II.1
ODA Commitments: Selected Trends
 (Calendar year commitments in \$ millions)

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
Total ODA	9,365	11,176	8,808	23,419	18,028
% Change	-13%	+19%	-21%	+266%	-23%
Bilateral ODA	7,412	7,928	7,870	20,446	15,939
% Change	-15%	+7%	-1%	+160%	-22%
--Bilateral Grants	6,646	6,818	7,505	19,771	11,979
% Change	-14%	+26%	+10%	+163%	-39%
--Bilateral Loans	766	1,111	366	675	4,894
% Change	-24%	+45%	-67%	+84%	+625%
Of which:					
Food Aid Loans	465	867	306	585	375
Multilateral ODA	1,953	3,247	937	2,973	2,088
% Change	-3%	+66%	-71%	+217%	-30%
Of which:					
Capital Subs.	1,220	2,467	65	2,094	1,041
United Nations	562	624	710	696	852

Source: U.S. Department of Commerce, Washington, DC.

B. ODA Prospects in the Near Term

Preliminary data for 1991 show that the United States net ODA disbursements increased slightly to \$11,430 million. Bilateral grants and grant-like flows increased about \$3.6 billion to \$12.1 billion. The increase consisted of \$200 million more in technical cooperation grants, \$100 million more in food aid, and \$3.3 billion more in the "other" category--mainly debt relief. Bilateral loan repayments also increased significantly (\$2.6 billion)--again mainly debt forgiveness. As a percentage of GDP, U.S. net ODA disbursements dropped slightly to 0.20 in 1991 compared to 0.21 in 1990.

Preliminary data on 1991 indicate that the United States committed \$18.0 billion of ODA, including \$8.4 billion of bilateral grants not related to debt relief, \$0.4 billion of bilateral loans, \$2.1 billion of multilateral commitments, \$2.6 billion of debt forgiveness and \$4.5 billion of bilateral debt rescheduling and interest capitalization. Total ODA commitments in 1991 were almost double the average for U.S. ODA commitments in the 1987-89 period.

The Fiscal Year 1992 foreign aid appropriations legislation

The Fiscal Year 1992 foreign aid appropriations legislation signed by President Bush on April 1, 1992 demonstrated the continuing U.S. commitment to development assistance even in times of intense competition for budgetary resources (see Tables II.2 and II.3). Budget authority for A.I.D.'s primary assistance programs (Functional Development Assistance and the Development Fund for Africa) was held essentially at the FY 1991 level (see Table II.4). While overall Development Assistance and Economic Support Fund appear to be decreasing, the FY 1991 budget authority levels included supplemental appropriations for Disaster Assistance and the Economic Support Fund as a result of the Persian Gulf War. The FY 1992 appropriation levels are an increase of \$333 million over the FY 1990 appropriations, primarily in the Development Fund for Africa.

The effects of Credit Reform, passed by Congress in 1990, begin to appear in budget authority levels in FY 1992. The basic aim of Credit Reform is to make the budgetary treatment of the costs of loan guarantees and direct loans strictly comparable. The result is that budget authority levels for both loan guarantees and direct loans reflect only the implicit subsidy amounts and the administrative costs of running these programs, rather than including the face value of direct loans but not recognizing the implicit liabilities involved in loan guarantees.

Table II.2
United States Comprehensive Development Budget
(Budget Authority in \$ Millions)

	FY 1990 Actual -----	FY 1991 Actual -----	FY 1992 Enacted -----
BILATERAL ASSISTANCE			
A.I.D. Development Assistance 1/ Trade & Development Program	2,464.3 31.5	2,815.5 35.0	2,796.8 34.5
Overseas Private Investment Corporation (OPIC) 2/	---	---	17.1
Food for Peace (P.L. 480) 3/ Economic Support Fund	978.2 3,956.7	1,003.9 4,036.5	1,484.2 3,200.6
Special Assistance Initiatives	159.3	529.7	462.7
Peacekeeping Operations	32.8	32.8	27.6
Anti-Terrorism Assistance	10.0	12.0	11.8
Peace Corps	165.6	186.0	197.0
International Narcotics Control	129.5	150.0	147.8
Inter-American Foundation	16.9	25.0	24.6
African Development Foundation	8.8	13.0	12.8
Central American Reconciliation Asst. Demobilization & Transition Fund	26.4 ---	---	---
Migration & Refugee Assistance	428.5	560.6	620.7
Emergency Refugee & Migration Fund	84.8	103.0	49.2
Subtotal: Bilateral Assistance	8,493.3	9,516.0	9,087.4
MULTILATERAL ASSISTANCE 4/			
International Bank for Reconstruction & Development	49.8	110.6	69.1
International Development Association	960.9	1,064.1	1,044.3
International Finance Corporation	74.6	40.3	39.7
African Development Bank	9.5	10.1	8.9
African Development Fund	104.5	105.5	103.9
Asian Development Fund	175.0	126.9	125.0
Inter-American Development Bank Fund for Special Operations	31.5 63.4	57.4 20.9	56.5 20.3
IDB Investment Corporation	---	13.0	12.3
European Development Bank	---	70.0	69.0
International Organizations & Programs (Voluntary Contributions) 5/	274.1	284.7	280.5
Subtotal: Multilateral Assistance	1,743.3	1,903.5	1,829.5
Gross Total	10,236.6	11,419.5	10,916.9
Offsetting Receipts (A.I.D.)	849.0	907.0	745.0
GRAND TOTAL	11,085.6	12,326.5	11,661.9

- 1/ A.I.D. DA excludes Miscellaneous Trust Funds and local currency programs. Includes IDCA/A.I.D. Operating Expenses and the Foreign Service Retirement and Disability Fund.
- 2/ OPIC subsidy and administrative costs. Authority for loan guarantees is \$212 million in FY 1990 and \$250 million in FY 1991. The FY 1992 estimate of loan activity is \$394 million.
- 3/ P.L. 480 program levels are: FY 1990 - \$1,520 million; FY 1991 - \$1,556 million; and FY 1992 - \$1,607 million.
- 4/ Does not include callable capital for the Multilateral Development Banks.
- 5/ Includes, inter alia, UNDP, UNICEF, FAO/WFP, and IFAD.

Table II.3
U.S. Economic Assistance, Gross
a. Budget Authority in \$ Millions by U.S. Fiscal Year

	FY 1990 -----	FY 1991 -----	FY 1992 -----
Development Assistance	2,464.3	2,815.5	2,796.8
Economic Support Fund	3,956.7	4,036.5	3,200.6
Food for Peace (P.L. 480)	978.2	1,003.9	1,484.2
Other Bilateral	1,094.1	1,660.1	1,605.8
Multilateral Institutions	1,743.3	1,903.5	1,829.5
Total	10,236.6	11,419.5	10,916.9

b. Budget Authority in Percentage by U.S. Fiscal Year

	FY 1990 -----	FY 1991 -----	FY 1992 -----
Development Assistance	24%	25%	26%
Economic Support Fund	39%	35%	29%
Food for Peace (P.L. 480)	10%	9%	14%
Other Bilateral	11%	15%	15%
Multilateral Institutions	17%	17%	17%

Table II.4
U.S. Functional Development Assistance and
Development Fund for Africa
(Budget Authority)
(\$ Millions by U.S. Fiscal Year)

	FY 1990 Actual -----	FY 1991 Actual -----	FY 1992 Enacted -----
Agriculture, Rural Development and Nutrition	482.7	463.1	430.5
Population	216.1	244.3	246.3
Health	135.0	131.9	129.8
Child Survival Fund	70.7	97.7	128.1
AIDS Prevention & Control	41.2	50.8	64.0
Education and Human Resources	132.0	115.7	136.9
Private Sector, Environment & Energy	137.3	146.1	150.0
Science & Technology	8.6	8.6	8.5
Deobligation/Reobligation Authority	74.2	56.6	35.5
Subtotal	1,297.8	1,314.8	1,329.6
Development Fund for Africa	571.8	800.0	788.2
Total	1,869.6	2,114.8	2,117.8

SOURCE: A.I.D.; Congressional Presentation, FY 1993

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III. ODA QUALITY, COMPOSITION AND FINANCIAL TERMS

A. ODA Quality and Financial Terms

In 1990, the grant element of U.S. ODA commitments was 98.96%, making the total commitment face value of \$23,419 million the equivalent of \$23,175 million of grants. This represented a slight increase in the grant element over past periods (98.45% in 1989 and 96.48% in 1988). This change was due primarily to the increase of grant-financed food aid (as opposed to loan-financed food aid) that came as a result of a restructuring of food assistance funding and operations starting in January, 1990. Terms for new ODA loans averaged 36.9 years to maturity, 9.3 years to first payment on principal and an average interest rate of 2.72%, yielding an overall grant element of 63.58% for new ODA loans, in between the comparable grant elements of 62.42% in 1989 and 64.56% in 1988. As a result of the 1991 forgiveness of debt obligations payable to the United States, the calculated grant element of ODA programs overall decreased from 99% to 88.5% in 1991. This statistical anomaly results from counting debt forgiveness both as a repayment of old debt and as a grant of new resources of an equal amount (this accounting is required by current DAC statistical procedures).

B. Debt Relief and Equivalent Measures

In 1991, the United States continued to implement the Toronto Summit's agreement to grant exceptional debt relief on the non-concessional official debt of low-income debt-distressed countries. In Paris Club rescheduling, the United States continued to be consistent in choosing Option B, to reschedule at market rates over 25 years with 14 years of grace. In FY 1991, the United States rescheduled about \$2.5 billion of debt service obligations of 17 developing countries, of which \$928 million were payments coming due in FY 1991.

In addition, in 1991, the United States extended debt forgiveness under three legislative authorities:

First, legislation was passed to implement the debt provisions of the Enterprise for the Americas Initiative (as discussed in last year's memorandum), a comprehensive approach to trade investment and debt, which is intended to encourage democracy and market-oriented economic reforms in the region. In accordance with this legislation, \$263.3 million of eligible debt was forgiven in 1991.

In addition, under legislation passed in 1988 for reforming African countries and countries elsewhere held to be relatively less developed reforming countries (Section 572 of P.L. 100-461), \$1,609.3 million of eligible bilateral debt was forgiven for

selected countries in Africa, Asia and Latin America in 1991. The 1991 forgiveness was the first time that this authority was used for countries outside of Africa.

Forgiveness was also extended in 1991 to certain eligible reforming countries for debt originally contracted under U.S. food assistance legislation (P.L. 83-480). Under the provisions of a new Section 411 of that law, \$686.8 million was forgiven in 1991, primarily for countries in Africa, but also to several countries in Latin America. Table III.1 gives country amounts for debt forgiveness under Sections 411, 572 and the EAI.

The United States-Poland debt agreement reduced Polish debt obligations to the United States by \$2.4 billion in two stages that total a 70 percent reduction on a Net Present Value basis. The United States also reorganized Egypt's \$5.1 billion of non-military debt to the United States following Paris Club reduction and reorganization of Egyptian debt and the FY 1990 forgiveness by the United States of Egypt's military debt.

Furthermore, A.I.D. is continuing the Debt for Development initiative started in 1989. In this program, A.I.D. uses foreign assistance funds to finance the purchase, by intermediary organizations such as Private Voluntary Organizations, of debt currently owed by developing countries to foreign creditors. Such purchases are made at the value at which such debt is traded in secondary markets. The purchasing organization subsequently exchanges the debt with the debtor country for local currency funding for a development project, such as biodiversity and health activities.

Table III.1
UNITED STATES DEBT FORGIVENESS IN FY 1991
UNDER SECTIONS 572 AND 411 AND EAI
(Millions of U.S. Dollars)

Country	<u>Section 572</u>	<u>Section 411</u>	<u>EAI</u>	<u>Total</u>
Benin	15.6			15.6
Burkina Faso	2.4			2.4
Cameroon	36.0			36.0
Cote d'Ivoire	13.0			13.0
Ghana	41.6	96.0		137.6
Kenya	40.4	100.7		141.1
Madagascar		54.6		54.6
Malawi	14.1	2.2		16.3
Mozambique		52.9		52.9
Niger	4.0			4.0
Nigeria	31.1			31.1
Senegal		34.5		34.5
Tanzania	39.5	59.0		98.5
Togo	7.4			7.4
Uganda		16.4		16.4
Zambia	63.3			63.3
TOTAL AFRICA	308.3	416.3		724.6
Bangladesh	291.6			291.6
TOTAL ASIA	291.6			291.6
Bolivia	339.6		30.7	370.3
Chile			15.9	15.9
Guyana	76.3	37.8		114.1
Haiti		98.9		98.9
Honduras	333.9	108.9		442.8
Jamaica			216.7	216.7
Nicaragua	259.5	24.8		284.3
TOTAL LATIN AMERICA	1,009.3	270.4	263.3	1,543.0
GRAND TOTAL	1,609.3	686.8	263.3	2,559.3

Note: Totals may not add due to rounding.

Source: U.S. Department of Commerce, Washington, DC.

IV. PUBLIC OPINION AND INFORMATION

A. Public Opinion on Foreign Assistance

A renewed emphasis has been placed on educating the public, which will lead to improved public opinion on foreign assistance concerns. A.I.D. mission directors overseas as well as senior agency managers in Washington are expected to broaden their knowledge of and dialogue with opinion leaders and concerned audiences that impact on the success of U.S. foreign economic and humanitarian assistance initiatives.

As part of its initiative to create an informed public opinion on issues dealing with foreign assistance, A.I.D.'s Division of International Development Communications in the Office of External Affairs (XA/IDC), was recently expanded to include a radio, television and photographic component to reach a broader base of the public.

IDC now facilitates an extensive number of radio interview programs, using senior A.I.D. personnel to explain major Agency development initiatives. These are broadcast on national and international radio networks.

The Office of External Affairs produced the pamphlet "Conserving the Earth's Resources" in advance of the World Environment Summit in Brazil this June to capitalize on the growing public concern and interest in the relation between development and the environment.

B. Public Information and Outreach Activities

There has been steady growth in A.I.D.'s public information and education program since the last report. Communications have improved on three fronts: information cooperation among the donor community, expansion of A.I.D.'s international development communication staff to include an electronic media component (radio & TV), and increased initiatives to better inform American audiences at home.

Since the last report, IDC has continued to expand the worldwide network of Development Communications Specialists to include some 20 A.I.D. missions throughout the developing world. The IDC office in Washington serves as the coordinating and support desk for this network which had done and/or is doing the following:

- IDC information videos have been produced on a variety of subjects, such as: the US-Asian Environmental Partnership; depoliticization of Albanian schoolbooks; and U.S. Business Partnership to promote exports; and

- News and feature items concerning A.I.D.'s worldwide development activities are regularly transmitted to foreign target audiences via the U.S. Information Agency's "Worldnet" TV satellite system, Wireless File newsfile and the Voice of America broadcasts.

A.I.D.'s Office of External Affairs produced a "Foreign Aid Facts of Business" pamphlet, which serves to inform and encourage private sector involvement in the developing world. They also produced in cooperation with Office of Legislative Affairs a pamphlet entitled, "Why Foreign Assistance?" for distribution to the print and electronic media.

In cooperation with A.I.D.'s Office of Private Sector, the Office of External Affairs produced a video showing what the foreign service agencies of the U.S. government are doing to promote export trade. This video will be distributed to all US embassies and A.I.D. missions abroad, and will be shown to business groups.

V. MULTILATERAL CONTRIBUTIONS

A. Multilateral Development Banks

1. The World Bank Group

In 1991 the United States worked very closely with the World Bank Group especially in devising measures to protect developing countries affected by the Gulf crisis, in planning for membership and Bank programs in nations formerly part of the Soviet Union, and in making further progress to reduce debt burdens in various countries. The U.S. took an active part in policy discussions in the World Bank Board in such areas as financial sector policy and best practices to achieve poverty reduction.

During 1991, negotiations were completed on a \$1.0 billion capital increase of the International Finance Corporation (IFC), with the U.S. agreeing to take a 24.75% share. Major issues in negotiations were overall Bank Group efforts to support private sector development, the relative roles and coordination between the Bank and IFC, and various IFC financial practices. Details of U.S. contributions to multilateral development banks (MDBs) are given on page 16 in Table: V.1.

As 1991 drew to a close, donors were preparing for the Tenth Replenishment of the concessional lending arm of the Bank Group, the International Development Association (IDA). The negotiations were set to consider some very difficult issues of allocation of limited resources and how the Bank can best tackle problems of institutional development, poverty reduction, and energy conservation.

2. Regional Development Banks

In 1991, a new regional development bank, the European Bank for Reconstruction and Development (EBRD) was established. The U.S. worked with other members and management to establish basic operating policies and procedures for the new institution, which is unique among multilateral banks for its strong focus on the private sector in its core operations and for its requirement that borrowers must be committed to the principles of multiparty democracy.

Negotiations were also finalized in 1991 on a \$4.2 billion four-year replenishment of the Asian Development Fund (ADF) to which the U.S. is pledged to contribute \$170 million per year or 16.19% of the total. In the negotiations the U.S. supported the requirement that all borrowers must have a satisfactory macro-economic framework, increased cooperation with other donors, strengthened environmental initiatives, and limitation of access only to ADF's traditional borrowers.

Likewise agreement was finalized on a \$3.4 billion African Development Fund replenishment, with the U.S. contributing 11.8%. The United States strongly supported the Bank's commitment to change its country allocation system to one based on borrower performance and to strengthen the project quality control function of the Fund's Board of Directors.

The United States also continued to work closely with the Inter-American Development Bank, especially to assist Latin American and Caribbean countries address structural roadblocks to development and to reduce debt burdens.

B. Contributions to International Organizations

U.S. contributions to international organizations and programs totaled more than \$1.4 billion in fiscal year 1990. These figures included assessed contributions of \$657.4 million to 66 international organizations, and voluntary contributions of \$790.6 million in cash, commodities, and services to 48 international programs. Of these totals, \$727.8 million was voluntarily contributed for programs in support of economic development and humanitarian assistance activities and \$103.5 million was contributed to peacekeeping operations, of which \$40.7 million was assessed and \$62.8 million was voluntary.

Our assessed contributions to international organizations in fiscal year 1990 came to 26.21% of total assessments against all Member States, while our voluntary contributions represented 16.66%. On an overall basis, we contributed 20.16% of total contributions (both assessed and voluntary) to all the international organizations and programs. Of the total assessed

contributions of \$616.7 million (excluding peacekeeping) in fiscal year 1990, \$434.6 million, almost two-thirds of that total, helped finance the regular activities of the United Nations, its specialized agencies, and the International Atomic Energy Agency. The remainder consisted of \$103.2 million for eight Inter-American organizations, \$61.3 million for five other regional organizations and \$17.6 million for 38 other miscellaneous organizations. In addition, the United States contributed \$40.7 million, or 30.55% of the assessment budget, to the U.N. peacekeeping operation in the Middle East.

Total voluntary contributions for fiscal year 1990 were \$790.6 million. Out of this total, \$727.8 million or 92.06% of the total was contributed to 41 special programs in support of economic development and humanitarian activities. The largest voluntary contribution for fiscal year 1990 was \$163 million to the UN/FAO World Food Program in cash, commodities and services. The second largest was \$127 million to the U.N. High Commissioner for Refugees Program including five general programs and seven special programs and was followed by \$105 million contributed to the U.N. Development Program (UNDP). Other major contributions were \$64 million to UNICEF's regular program; \$57 million to the United Nations Relief and Works Agency; and \$40 million each to the Consultative Group on International Agricultural Research and to WHO special programs.

Table: V.1
U.S. CONTRIBUTION TO THE MDBS
FY 1988 - FY 1991
(\$ million)

	FY 1988 Actual	FY 1989 Actual	FY 1990 Actual	FY 1991 Actual	FY 1992 Enacted
IBRD					
Paid-In	40.2	50.0	49.	110.6	69.1
Callable	437.3	2293.0	0.0	2899.6	2233.9
IDA	915.0	995.0	960.9	1064.2	1044.3
IFC	20.3	4.9	74.6	40.3	39.7
MIGA					
Paid-In	44.4	0.0	0.0	0.0	0.0
Callable	177.6	0.0	0.0	0.0	0.0
IDB					
Paid-In	31.6	0.0	31.5	57.4	56.5
Callable	119.4	0.0	0.0	2235.1	2202.0
FSO					
Paid-In	25.7	0.0	3.5	20.9	20.3
IIC	1.3	0.0	0.0	13.0	12.3
ADB					
Paid-In	15.1	0.0	0.0	0.0	0.0
Callable	276.5	0.0	0.0	0.0	0.0
ADF	28.0	152.4	175.0	126.9	125.0
AFDB					
Paid-In	9.0	7.3	9.5	10.1	8.9
Callable	134.9	135.1	134.2	135.4	132.8
AFDF	75.0	105.0	104.5	105.5	103.9
EBRD					
Paid-In	-	-	-	70.0	69.0
Callable	-	-	-	163.4	161.0
TOTAL					
Budget Author.	1205.6	1314.6	1469.2	1618.8	1548.9
Program Limits	1145.8	2428.0	134.2	5433.5	4729.7

SOURCE: International Donor Program, Directorate of Policy, A.I.D., Washington, DC.

VI. GEOGRAPHIC DISTRIBUTION OF ODA

Geographical trends for the calendar years 1987 through 1990 are illustrated in tables VI.1 and VI.2. Geographical distribution of U.S. ODA in calendar year 1990 remained stable except for a 90% increase in ODA to the North of the Sahara region, which accounted for the increase in ODA to Africa and total bilateral ODA.

Table VI.1
U.S. Bilateral ODA, Net Disbursements
Geographical Distribution by Region, 1987-1990
(in \$ millions)

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Europe	-44	-23	-29	-44
Africa	2,024	1,731	1,855	3,529
North of Sahara	1,155	905	1,010	2,432
South of Sahara	783	772	732	1,001
Regional Unspecified	87	54	113	96
Latin America	1,437	1,233	1,221	1,343
Caribbean & Central	1,211	973	996	1,086
South	119	145	57	117
Regional Unspecified	107	114	168	140
Asia	2,058	2,158	2,108	2,189
Middle East	1,388	1,312	1,284	1,413
South Asia	369	644	567	458
Far East	265	140	221	283
Regional Unspecified	37	63	36	35
Oceania	176	168	178	74
Worldwide, Unspecified	1,356	1,499	1,493	1,276
Bilateral, total	7,007	6,765	6,827	8,367
Memorandum:				
Least Dev. Countries	788	779	761	985

Source: For Tables VI.1 & VI.2, Balance of Payments Division, U.S. Department of Commerce, Washington, DC.

Table VI.2
U.S. Bilateral ODA, Net Disbursements
Major Recipients, by Region, 1987-1990
(in \$ millions)

	<u>1987</u>		<u>1988</u>	
	=====		=====	
	Total	7,007	Total	6,765
	of which:		of which:	
Europe	Cyprus	17	Portugal	21
North Africa	Egypt	1,036	Egypt	799
Sub-S. Africa	Sudan	102	Sudan	108
Caribbean and Central America	El Salvador	356	El Salvador	318
South America	Bolivia	77	Bolivia	70
Middle East	Israel	1,201	Israel	1,191
South Asia	Bangladesh	145	Pakistan	338
Far East	Philippines	230	Philippines	121
Oceania	TTPI*	173	TTPI*	147
Least Developed	Bangladesh	145	Bangladesh	120
	<u>1989</u>		<u>1990</u>	
	=====		=====	
	Total	6,827	Total	8,367
	of which:		of which:	
Europe	Portugal	32	Portugal	21
North Africa	Egypt	905	Egypt	2,346
S-S Africa	Sudan	110	Sudan	143
C.&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
Oceania	TTPI*	156	TTPI*	52
Least Developed	Bangladesh	137	Bangladesh	168

*Trust Territory of the Pacific Islands and successor entities (excluding the Commonwealth of the Northern Marinas).

VII. A.I.D. COORDINATION, COUNTRY PROGRAMMING, AND DEVELOPMENT STRATEGIES

A.I.D. takes pride in the fact that it generally maintains excellent relations with other donor countries. It actively participates in nearly all international coordination meetings chaired by, inter alia the World Bank, and United Nations Development Program. Moreover, in several recipient countries, because of A.I.D. staff resources as well as USAID field missions, A.I.D. staff are able to take a leadership role in facilitating full discussions of development issues/constraints that impede economic development.

Following are some of the examples of A.I.D. donor coordination efforts both at multilateral as well as bilateral levels:

A. Multilateral and Regional Banks

A.I.D. coordinates with the MDBs extensively both in the field and in Washington. A.I.D. officers in USAID Missions meet often with their MDB counterparts. Likewise everyone from desk and project officers to senior Agency officials talk frequently with their World Bank and regional bank colleagues. In 1991, A.I.D. participated in a large number of Consultative Groups, Roundtables as well as a variety of ad hoc donor meetings tailored to specific circumstance. Finally, A.I.D. is the only bilateral donor that has a specific system to solicit field comments on MDB projects and use these comments in government decision-making on Executive Board votes on Bank projects.

B. ASIA: CAMBODIA - Donor Coordination

Mechanisms for donor coordination are now being discussed. Under the comprehensive political settlement, signed last October, the United Nations Transitional Authority for Cambodia was given responsibility for donor coordination up through elections scheduled for the Spring of 1993. Thereafter, a donor led group would assume responsibility for donor coordination. A Ministerial donors conference, to be chaired by Japan and UNDP, is scheduled to take place in Tokyo in late June. Mechanisms for donor coordination will be discussed at that meeting. A.I.D. has strongly encouraged the establishment of a donor led group for Cambodia patterned after the CGs.

C. Africa

(1) Special Program for Africa (SPA):

The SPA provides a forum whereby policy advice can be harmonized. Semi-annual meetings are held with representatives of all major donors (16 bilateral and 5 multilateral institutions) to discuss structural adjustment issues in Africa. Donor participation in this program illustrates how quick-disbursing assistance for performing yet debt distressed countries can facilitate economic growth. A.I.D. is an active member of an SPA Working Group which developed policy and implementation guidelines to help donors standardize their import support programs and phase-out administrative controls which hamper the functioning of foreign exchange markets.

(2) Global Coalition for Africa (GCA):

The GCA facilitates dialogue between northern and southern partners on key African development issues. The GCA does not replicate the technical work of other international agencies, but allows African governments, donors, NGOs and others to exchange ideas and debate issues in an off-the-record forum. The U.S. has participated in semi-annual GCA meetings and has worked actively on a subcommittee on democracy and governance which is helping Africans and donors to develop strategy guidelines to support efforts to make government more accountable and participatory in Africa.

D. Europe

The G-24 at the European Community in Brussels is the designated vehicle for donor coordination. On at least a biannual basis, representatives of the G-24 member countries meet to share information on donor activities, coordinate policies, and identify theme areas that will require particular attention. This mechanism has also been used to develop parallel financing arrangements, such as one planned for the Albanian agriculture sector. In addition, A.I.D. customarily coordinates with the major bilateral donors through direct bilateral contacts.

Effective coordination of donor assistance for a specific country also requires regular meetings of the donor representatives who actually work in the recipient country. In-country donor coordination mechanisms have now been established in most of the countries in the region.

The technical assistance efforts of all donors are also coordinated through the clearinghouse function of the OECD databank in Paris. The Europe Bureau has established an electronic datalink with the OECD that provides instant access to

all technical assistance project descriptions by donor, recipient country, sector of assistance, and type of assistance mechanism (e.g., training).

A.I.D.'s program objectives in Central and Eastern Europe were established in concert with Presidential and Congressional initiatives. They are threefold:

1. Assist with the transformation to market economies;
2. Maintain and improve the quality of life; and
3. Strengthen democratic institutions.

To date, the regional project approach has been an important part of A.I.D. strategy, allowing A.I.D. to respond immediately to the rapidly changing situation in the region, e.g., to provide urgent assistance to Albania and the Baltics. Country programming has involved bilateral projects which are identified as such in the Operating Year Budget, as well as regional projects with country-specific obligations. In other cases, projects have been obligated for multi-country activities.

Through the end of fiscal year 1991, the U.S. had provided \$383 million, about two-thirds of its SEED Act assistance, in the form of bilateral projects, notably the Polish Stabilization Fund and the Polish, Hungarian, and Czechoslovakian Enterprise Funds, and sector grants such those provided to CSFR, Hungary, and Bulgaria.

The balance of A.I.D. assistance has been provided through regional projects. This includes \$104 million (about 17% of SEED Act assistance) that was provided through regional projects for country-specific obligations, for example, to fund partnerships between U.S. and CEE health institutions, and for management training grants. An additional \$72 million (about 12% of U.S. SEED Act assistance), is provided through multi-country activities at the point of obligation, but country-specific plans and funding levels are developed for implementation purposes. An example of this would be NGO activities under the Private Sector Humanitarian Initiatives Project. About \$44 million (about 7% of SEED Act assistance) is provided in support of projects that are truly regional in nature right through implementation, such as grants to the OECD or the Regional Environment Center.

In May 1992, country program and regional project reviews will be undertaken to assess country-specific project achievements and refine country-specific priorities for FY 93 assistance.

E. Latin America and the Caribbean

Development Strategies: The policy framework for A.I.D.'s programs in Latin America and the Caribbean is the Enterprise for the Americas Initiative. Its vision of promoting economic growth through increased trade and investment is based on an understanding of mutual respect and mutual responsibility. Within the EAI framework, A.I.D. has identified the following objectives for programs in the region:

- 1) support the achievement of broadly based, sustainable economic growth;
- 2) support the evolution of stable democratic societies; and
- 3) respond to specific challenges to the attainment of the first two objectives.

A.I.D. Coordination

Partnership for Democracy and Development (PDD): The Partnership for Democracy and Development in Central America is a major United States initiative which brings together 22 OECD countries, the seven Central American countries (including Panama and Belize), the Latin American Group of Three (Mexico, Colombia, and Venezuela) and various international organizations to support the process of democratization and development in Central America. Formally launched in April 1991, the Partners recognized the commitment of Central America's now all-democratically elected governments to consolidate in Central America a region of peace, liberty, democracy and development. The non-Central American partners of the group agreed to participate with the Central Americans in support of these objectives.

The PDD has established two working groups: a democracy working group and a trade and investment working group. As a member of both groups the United States will play the lead role in several activities areas including regional military demining, and strengthening of administration of justice, trade and investment statistics and information, and facilitating a regional trade and investment conference to be hosted by Honduras. In addition to developing assessments and studies for these areas of activity, the United States plans to contribute a limited amount of funds, in collaboration with others, to the implementation of these and other PDD activities. The United States also will assist the Government of El Salvador in hosting the third plenary Conference of the entire PDD membership to be held in El Salvador in September, 1992. The PDD aims to enhance the foreign policy dialogue and coordination of donor programs in Central America, and to encourage the efforts of all partners to increase their commitment to the development of the region.

F. Near East

Jordan - Aid Coordination, Country Programming, and Development Strategies:

A.I.D. has a close working relationship with other donors in the country. Regular donor meetings are held on the critical water issue to ensure that various efforts are complementary rather than duplicative. For instance, A.I.D.'s work in the water sector will be mostly with wastewater treatment and the quality of water for irrigation as well as institutional and management reform while the German aid program is concentrating on municipal delivery of water. These water sector donor meetings were begun in 1991 at the instigation of A.I.D.

A.I.D. also has had several cases of successful parallel financing with other donors in Jordan. At the invitation of the German Ambassador in 1989, A.I.D. parallel financed tourism development work at one site in northern Jordan. In 1991, the United States joined the Canadian and Italian donor programs in financing environmental protection/employment generation work at a site in the central part of the country. This year we expect to provide parallel financing for another environmental-employment type project in southern Jordan. The other donors involved in this case are Germany and the International Labor Organization.

Egypt - Aid Coordination, Country Programming, and Development Strategies:

A.I.D. has close working relationships with other donors in the country. As noted below, A.I.D. will be coordinating with several donors in assisting the Government of Egypt to implement its economic reform program. A.I.D. will be working with the IMF and World Bank in providing assistance on economic policy reforms for restoring macroeconomic balance and structural adjustment measures to improve overall efficiency. A.I.D. is in the process of shifting its assistance increasingly toward the elimination of sector-specific obstacles to realize the goals of its comprehensive economic reform program which is the basis of the GOE programs with the IMF and World Bank.

Yemen - Aid Coordination, Country Programming, and Development Strategies:

USAID has taken the lead in trying to organize donors in Yemen. Just recently donor coordination groups were set up for health and population activities and for women in development activities. Participants in the former group include UNICEF and UNFPA, as well as the Dutch and the Germans. Participants in the latter include UNICEF, UNFPA, and the Dutch. USAID chairs both groups. As of yet, USAID has not engaged in joint funding efforts and no such efforts are anticipated in the near future.

West Bank/Gaza - Aid Coordination, Country Programming, and Development Strategies:

The donors active in the West Bank and Gaza began again to formally meet in late 1991 (not having met previously since 1967) under the leadership of the UNDP. Approximately 18 bilateral and multi-lateral donors are engaged in the effort, which is characterized as information exchange rather than coordination. The group has formed six sectoral-based working committees. The major achievement to date has been a publication listing of all member activities.

A.I.D. has been involved in one joint donor activity: \$1 million was contributed to a sewage project for Jebalyia refugee camp. UNDP took the lead in coordinating the effort. Other donors included UNRWA and the Government of Japan.

Lebanon - Aid Coordination, Country Programming, and Development Strategies:

Throughout the past years of civil strife in Lebanon, USAID/Beirut took an active--and often leading--role in a regular program of coordinating meetings with other donor representatives and private voluntary organizations in an attempt to improve relief coordination and avoid redundant service. This past spring the newly arrived UNDP Resident Representative assumed coordinating responsibilities but A.I.D. continues to be an active participating member.

G. Newly Independent States (NIS)

U.S. aid policy toward the Republics of the former Soviet Union (hereafter, NIS) is nascent, and still evolving. To date, the United States has committed a total of \$115 million in development funds to assist the twelve newly independent states.

Nine specific Program Sectors, comprising the "first generation" of bilateral assistance projects to the NIS, have been authorized with \$85 million from FY 1992 Economic Support Fund. A brief list of these initiatives follows:

1. Technology Transfer/Democratic and Economic Initiatives - Phase I: \$14.9 million.

- o This project broadly supports the economic and social transformation of the NIS into free-market democracies. It will provide technical assistance, training, and support for field operations.
- o Participating organizations include the Department of Commerce, the United States Information Agency (USIA), the

International Executive Service Corps (IESC), Citizens Democracy Corps, and selected PVOs and NGOs.

2. Energy Efficiency / Market Reform - Phase I: \$15.6 million.
 - o This project provides energy sector advisors and program support for pricing and institutional reform, oil and gas production and delivery systems, improved energy efficiency, nuclear power plant safety and environmental technology, and coal mine safety.
3. Health Care Improvements - Phase I: \$15.0 million.
 - o This project contains three separate components: (1) promotion of trade and investment in health, including the provision of technical assistance and training to encourage NIS private sector participation in health input production and service provision; (2) U.S. hospital and health center "partnerships" with local groups to encourage and facilitate the transfer of technology on sanitation, surgical procedures, and hospital administration, and to include some provision of medical equipment; and (3) selected interventions to improve the production and delivery of medicines, vaccines, and medical supplies into the NIS.
4. Private Sector Initiatives / Defense Conversion - Phase I: \$12.5 million.
 - o This project will help facilitate the economic transformation of the NIS by involving U.S. businesses and institutions in areas where they have a comparative advantage. The primary focus will be on the reorientation of the defense-focused economies through co-ventures involving U.S. firms and through support to small indigenous entrepreneurial activities. The project will also support general privatization efforts such as auctions of former state-controlled shops, private banks, and privatization of defense industries.
 - o Advisors will be used to facilitate business investments and to develop business centers in selected urban areas.
5. Food Systems Restructuring - Phase I: \$6.0 million.
 - o This project will address food distribution, food storage, agricultural policy, and agriculture extension issues. The U.S. cooperative sector will be used to assist and to support agri-businesses and cooperatives within the NIS.

6. Democratic Pluralism - Phase I: \$8.0 million.
 - o This project will be comprised of grants to U.S. political party institutes for work in the areas of political party development, political training, civic education, and the rule of law. It will also provide support in the development of free and democratic labor unions, and the establishment/enhancement of the free media in the NIS.
 - o Participating organizations in this program will include the International Republican Institute, the National Democratic Institute, the American Bar Association, the AFL-CIO, and the International Media Fund.
7. Housing Sector Reform - Phase I: \$5.0 million.
 - o The project supports the development of a market-oriented private housing sector in the NIS. Assistance will include resident advisors in selected urban areas to assist in the design of housing policies and systems of private land ownership.
8. Economic Restructuring / Financial Sector Reform - Phase I: \$4.0 million.
 - o This project will assist the macro-economic reform programs in the NIS by providing resident long-term advisors from the Department of the Treasury and A.I.D. The advisors will work with key institutions including ministries of finance, central banks in the areas of tax policy and administrative reform, fiscal and monetary policy, banking law, and financial sector oversight. In addition, substantial training is envisioned related to the development of market-based financial institutions.
9. EURASIA Foundation - Phase I: \$4.0 million planned.
 - o This foundation will be dedicated to the provision of technical assistance, training, and pilot grants to private sector organizations and institutions in the areas of management training, private sector development, and democratization. Various U.S. PVOs and NGOs are expected to be used to implement the program.
10. Other Initiatives - Funds are additional to the \$85 million authorization:
 - o Since February, 1992, A.I.D./Office of Foreign Disaster Assistance (OFDA) has contributed an additional \$25.0 million to assist in the collection, shipment, and distribution of medical supplies to the NIS through the American Red Cross, begun an emergency immunization program

in four Central Asian republics, and provided humanitarian emergency medical assistance of medicines and medical supplies through Project Hope.

- o Another \$10.0 million is being expended in providing Farmer-to-Farmer voluntary technical assistance throughout the NIS under the funding mechanisms of the PL 480, Title II programs.
- o A.I.D. funding is being made available to assist in funding other US Government agency assistance programs as they proceed to adjust their budgets to support transition democracies and market-economic development in the NIS.
- o In the context of A.I.D. continuing to design, implement, evaluate, and re-design assistance programs, the "second generation" of development activities and humanitarian programs are being considered using additional FY 1992 funds, as well as planning for FY 1993 resources.

H. Arrears Clearing

1. AFRICA: In general, arguments could be made that A.I.D.'s Non-Project Assistance (NPA) indirectly helps reduce IFI arrears in two ways: (a) it provides foreign exchange, which is fungible and frees up other foreign exchange for clearing arrears; and (b) it promotes economic growth and often export growth, thus increasing recipients' capacity to service IFI debt.

There are several instances where our NPA has gone directly for servicing IFI debt, including: Benin, Burundi, Cameroon and Zambia. In the latter case, in FY 1991, \$19.6 million in ESF deobligations/reobligations under the Zambia Stabilization Program was used to pay arrears to the World Bank. In FY 1992, \$10 million under the Maize Market Decontrol Program was used to pay IMF arrears. In both these cases, our contributions were a critical input for reactivating the Bank/Fund adjustment programs in Zambia.

In addition, we have recently approved using NPA to pay IFI debt in Madagascar and EXIM Bank debt in Uganda (the Uganda debt relief may also cover IFI debt, although it is not confirmed).

2. Latin America and the Caribbean: During the 1980s, a number of Latin American countries accumulated significant arrears in debt servicing to the World Bank, the IMF, and the Inter-American Development Bank. The U.S. Government has worked closely with the international financial institutions and other bilateral donors to arrange financial assistance packages -- including bridge financing from the U.S. Treasury -- to clear these arrears, thus permitting the resumption of lending by the IFIs.

During 1991, arrears clearing agreements were reached with Peru and Nicaragua. Preparations for an arrears clearing agreement with Panama continued through 1991; an agreement was signed in 1992.

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

A. Policy Reform Initiatives

The United States economic assistance program is guided by a clear recognition that appropriate economic policies are of overriding importance for economic development. Consequently, the United States strongly supports the policy reform and structural adjustment policies of developing countries, and it welcomes the growing extent to which other bilateral donors are providing similar support. The United States supports the use of resource transfers to underwrite reforms and the provision of technical assistance to help policy makers to identify, design, and implement appropriate measures. U.S. representatives maintain a policy dialogue with host government officials, working with them to identify desirable changes and appropriate new policies and means to introduce and maintain them. Policy dialogue emphasizes the importance for development of a policy environment conducive to private enterprise, competitive markets, and growing participation in international trade. Examples of U.S. initiatives are summarized below:

1. The Enterprise for the Americas Initiative, as noted previously, involves debt management, environmental protection, and means to promote international trade and private investment - foreign and domestic. Its principal purpose is to promote faster economic growth in the Americas. Further details of the EAI are given in the Chapter XV.C.

2. Caribbean Basin Initiative (CBI)

The CBI announced by President Reagan in February 1982, has provided trade, aid, and other benefits to most countries and territories in the Caribbean and Central America. Trade and tax benefits were provided under the Caribbean Basin Economic Recovery Act (CBERA), which came into effect at the beginning of 1984. The CBERA provided duty-free benefits to most imports from designated beneficiaries, originally for a 12-year period but now permanently. The tax benefit is available to U.S. companies holding business conventions, seminars, and meetings in CBI countries that have signed a Tax Information Exchange Agreement (TIEA) with the United States. Countries that have signed a TIEA are also eligible, under the 1986 Tax Reform Act, for investments with favorable interest-rate financing available in Puerto Rico.

In February 1986, the CBI was expanded to offer special access to the U.S. market for apparel assembled in the Caribbean Region from cloth formed and cut in the United States. The direct benefits of the CBI, as well as assistance in export promotion and development provided by A.I.D. have helped A.I.D.-assisted CBI countries' exports of nontraditional products to the United States to grow at an annual rate of 19.2% between 1983 and 1991.

3. The Multilateral Assistance Initiative in The Philippines

The Multilateral Assistance Initiative (M.A.I.) for the Philippines was launched in 1989. Under the M.A.I. framework, 26 donors assist the Government of the Philippines in implementing and promoting democracy and broad-based, sustainable economic growth and development to continue the country's economic recovery. The U.S. ranks second, behind Japan, as a major contributor to this effort. With support from the M.A.I. the Government of the Philippines is making efforts to establish a policy environment and conditions that strengthen the private sector as the primary engine of growth. The efforts include trade policy reforms, improvements in the investment climate, rationalization of the financial system, and rehabilitation of infrastructure. The M.A.I. has enhanced both donor coordination and burden sharing, with the former supporting policy reforms, accelerating project implementation, and increasing utilization of donor resources.

4. The African Economic Policy Reform Program

Introduction: In the past seven years (1985-1991), A.I.D. has funded 30 economic policy reform programs in 21 African countries for a total \$364 million. These programs have helped bring about critical policy changes in sectors related to A.I.D.'s strategic objectives in each country. Programs are allocated to countries which have demonstrated a commitment to policy reform. The funds provided are a substantial addition to the normal operational year budget, thus rewarding countries which engage in significant policy reforms. The programs combine technical assistance, studies, dollars and local currencies in a cohesive package, with dollar disbursements occurring in tranches linked to the satisfaction of specific conditions.

A.I.D. Strategy: Policy reform programs in the productive sectors have brought about policy changes in agricultural production, marketing and credit, fertilizer marketing, industry, transport, export promotion, taxation and tariff reduction, financial sector restructuring, and private sector development. Recent social sector economic policy reform programs include primary health care and health financing in Nigeria and Kenya, and basic education in Mali and Benin.

A.I.D. carried out impact evaluations of six economic policy reform programs to determine what effect these programs have had on the lives of ordinary Africans. The programs were selected to include apparent successes (Cameroon, Mali, Uganda) as well as those which did not meet expectations (Senegal, Malawi, Gambia). The two highly successful programs and one partial success described below show the potential for dramatic, beneficial change through policy reform in Africa.

Cameroon: The A.I.D. program achieved its goals of reducing government subsidies and improving fertilizer delivery to small farmers through privatization and liberalization of the fertilizer market. Once the government was removed from the procurement and delivery of fertilizer, private suppliers and distributors reduced fertilizer delivery time from 18 months to 10 months between initial order and on-farm delivery of the fertilizer. The financially strapped Cameroon Government reduced the fertilizer subsidy by \$215 per ton, but the price to the farmer increased only slightly in spite of increases in the world price of fertilizer. This was possible because private distribution costs are now only \$50 per ton compared with an astronomical \$280 per ton under the old state-run system. The subsidy had not been reaching the farmer; instead, it had served to underwrite the inefficiency and corruption of the fertilizer distribution bureaucracy.

Now, these same government resources are available for other more productive purposes. Fertilizer demand and sales remain stable in spite of precipitous declines in the farmgate prices of the major cash crops, cocoa and coffee, due to increased use of fertilizer in food crops. Although the farmer faces a slightly higher price, he or she is now more reliably served by the private delivery system.

Uganda: The A.I.D. program achieved its goal of reducing the Ugandan economy's dependence on coffee exports by opening up new opportunities for exporters. The program helped get the foreign exchange price right for all non-traditional exports (i.e., all exports except coffee) and allowed these new exporters to retain and use of the foreign exchange they earn. This reform has touched off an explosion of investment in producing non-traditional exports with considerable impact on the economy. The value of non-traditional exports tripled in 1989 and doubled again in 1990, surpassing \$30 million. Most important of all, the new opportunities for exporting appear to have instilled new confidence in the Ugandan private sector. In addition to a large number of new private import-export businesses, including private airlines for transport of export products, there are significant new private investments being made, particularly in the production of non-traditional agricultural exports.

Malawi: A.I.D.'s fertilizer subsidy reduction program in Malawi managed to bring down the rate of subsidy for two successive seasons and to substitute more cost-effective highly concentrated fertilizers for less concentrated fertilizers at a considerable foreign-exchange savings. The interruption of transport through Mozambique during the program resulted in temporarily higher transport costs for importing fertilizer which had to be shipped through the more distant port at Durban. Consequently, the Malawi Government suspended its reduction of subsidies, thereby ending the reform program. However, the considerable foreign exchange saving realized through the substitution of high-analysis for low-analysis fertilizers continues to benefit both large and small Malawian farmers because of the lower shipping costs for high-analysis fertilizers.

These results demonstrate there are significant economic benefits available to countries willing undertake sectoral reform programs. A.I.D. missions on the ground in African countries are helping reform-minded African governments design and implement important sectoral policy reforms, bringing about positive outcomes for large groups of Africans.

5. Development Fund for Africa (DFA)

The DFA, inaugurated in FY 1988, has introduced a new flexibility into U.S. economic assistance programming. Within the DFA, the United States is able shift resources quickly to programs and activities which are proving most effective. As a result, the U.S. assistance program is becoming more performance-based. U.S. assistance has expanded in countries with good performance and has contracted in countries with poor performance. The flexibility of the DFA will allow the United States to support policy reform programs in more than twenty countries.

Economic growth in the countries where A.I.D. has focused its assistance under the DFA, has been significantly higher than elsewhere in Sub-Saharan Africa. During the 1988-90 period, these countries averaged 3.9 percent growth per year, nearly double their 2.1 percent growth rate of the 1980-84 period. In the same period, the growth rate for all other African countries fell from 2.3 percent in 1980-84 to 2.1 percent. Also, growth in A.I.D.'s focus countries has been more wide-spread, as the number growing at rates of at least 3 percent per year doubled over the decade, from 8 of 22 in 1980-84 period to 16 of 22 during 1988-90. While three-fourths of the countries where A.I.D. has focused its assistance under the DFA grew at rates exceeding 3.0 percent during 1988-90, only one-third of the other countries in Africa did so.

In addition to its economic assistance programs, during fiscal years 1990 and 1991 the United States forgave a total of \$1.2

billion in debt owed by 19 African countries under food aid and economic assistance programs. Of this total, \$787.5 million in relief was provided for foreign assistance loans to the poorest but reforming African countries. These loans had helped address critical development problems in areas such as agriculture, health and education. The United States also forgave \$416.2 million in food aid loans that had financed food commodities and their shipments to meet food deficits in developing African nations.

6. U.S. Policies towards Policy Reform and Structural Adjustment Efforts in Europe

Most of U.S. assistance resources for economic restructuring in Eastern Europe are targeted for microeconomic activities at the enterprise level, to directly stimulate the creation and expansion of private enterprises. At the macroeconomic level, A.I.D. is also assisting with the design and implementation of local programs of market reform and structural adjustment. A.I.D. provides this assistance primarily through region-wide technical assistance projects. In Poland, Hungary, and the Czech and Slovak Federal Republic, U.S.-funded advisors play a key role in the development of systems and procedures necessary for mass privatization of state-owned enterprises. In the energy sector, under socialism, prices were severely distorted, resulting in wasteful patterns of energy use. U.S. energy experts are now assisting with electricity price reform, energy audits and energy-saving equipment for industrial plants, and restructuring of major refineries. Since the 1991 termination of subsidies on oil sourced from the Soviet Union, U.S. experts have been advising CEE countries on competitive procurement of oil from the world market.

During 1991, A.I.D. also provided modest sector grants in Eastern Europe, linked to the funding of local currency expenditures, to help accelerate reform. For example, one grant cushioned the impact on low income Hungarian families from a sharp jump in energy prices; another is helping to finance the privatization of state agricultural land in Bulgaria.

A.2. Institutional Support for Policy Reform: In addition, A.I.D. has increased its efforts to aid LDCs in providing technical assistance in designing reforms for specific policy problems. It has continuously provided assistance to A.I.D. assisted LDCs to monitor and evaluate reform efforts, including reductions of price distortions, privatization, deregulation, reallocation of public expenditure, and support of new market institutions. In this respect, some of the A.I.D. multi-year and multi-million dollar projects have made, and continue to make, significant contributions. A brief overview of major A.I.D. supported projects is as follows:

(I) International Center for Economic Growth (ICEG) and the International Center for Self-Governance (ICSG): They are supported to strengthen the process of market-oriented and democratic policy and institutional reforms. ICEG's goals are economic growth, policy reform, and human development. Recent ICEG publication, conference, and policy analysis emphases have included trade liberalization, stabilization, privatization and development strategies. Established in 1985, ICEG supports a network of 242 policy institutes in 94 developing, developed and transitory economies (including former USSR associated economies). ICEG's newsletter reaches more than 19,000 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.

(II) Consulting Assistance on Economic Reform (CAER): The CAER project aims to help developing nations to 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 A.I.D.'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 support to the Ukraine for short-term consultants on economic education and policy analysis; an analysis of how A.I.D. can better integrate environmental concerns into broader economic reforms, with particular emphasis on the Newly Independent States (NIS); and an evaluation of the impact of a four-year research program in Africa concerning the impact of policy reform on the poor.

(III) Institutional Reform and the Informal Sector (IRIS): The IRIS Project, begun in late 1990, is designed to promote greater understanding of the institutional requirements for economic growth in developing countries and to enable local organizations to undertake their own institutional reform programs. The IRIS project is designed to: (1) promote laws, regulations, organizational structures, and decision-making processes in selected countries; (2) to build an increased international awareness of the role of institutions in economic development; and (3) to expand the knowledge base on the relationship between institutions and economic growth and examine new approaches to institutional reform. These objectives are achieved through organizational development to support the activities of local groups, collaborative research and technical assistance, training

programs in the U.S. and abroad, information dissemination and outreach, and core research to develop the knowledge base on institutional reform.

B. Structural Adjustment Efforts

Nearly all Latin American countries are restructuring their economic policies to rid themselves of the inward-looking and statist policies which have failed to deliver sustained economic growth. Moreover, there is growing recognition that democratic government, with broad opportunity for full participation of all sectors of society, is the best way to promote sustained economic growth and improved economic welfare.

The goal of U.S. assistance in Latin America and the Caribbean is to promote stable democratic societies that are capable of providing opportunities for a decent life for all their citizens. The principal means for achieving this goal are direct aid in support of better economic policy, technical assistance and expert advice on democratic development issues, and the offer of increased trading opportunities and enhanced private investment.

Structural adjustments supported by U.S. assistance include:

- eliminating government allocation of credit, foreign exchange, and other policies that tend to favor vested interest and established businesses but prevent access by new or small businesses;
- reducing fiscal deficits to lower inflation, which often disproportionately harms the poor -- who are least able to protect themselves -- and discourages investment in productive long-term activities; and
- strengthening the competitiveness of the economy by opening up the economy to foreign trade through reducing tariffs, quantitative controls and export taxes, and implementing a market based exchange rate. These reforms encourage competitive production, increase the ability to compete in world markets, and encourage labor-intensive industries while discouraging production of capital-intensive goods.

Political stability and sustained economic growth improve the lives of the poor. Only with sustained growth are the poor given a better chance in life with greater opportunities for employment and a means to support a livelihood. Adjustment policies also free governments from committing scarce resources to subsidized inefficient parastatal industries, thus enabling them to devote more resources for the improvement of education, health services and nutrition.

C. Performance-Based Budgeting (PBB)

A.I.D. is currently developing a system of performance-based budgeting for the allocation of U.S. foreign assistance among country programs. The system will use the quality of the host country policy environment as a major criterion in allocation decisions, based on the principle that foreign assistance resources will be more productively employed in countries where the policy environment supports broad-based, sustainable economic growth than in countries where policies hinder such growth. The host country policy environment has long been considered informally in decisions about country program funding, but the new system will help ensure that policy considerations are built into funding decisions on a consistent basis across A.I.D.'s geographic bureaus. By this means, A.I.D. expects to increase the overall developmental effectiveness of its assistance efforts.

Although the major purpose of the system is to increase the impact of host country policies on the allocation of assistance, other criteria will continue to play a major role in the resource allocation. In particular, the size of the host country, its need for economic assistance, its support for democracy and human rights, and other considerations will continue to play important roles in funding decisions. In sum, the new budget system is intended to serve as the starting point for allocation decisions, while providing the flexibility necessary to allow A.I.D. to respond to the complexity of the economic and political environments of its host countries.

A.I.D. has recently completed a major effort first, to identify a core set of economic policy areas to include in the assessment of the overall policy environment in A.I.D.-assisted countries, and second, to gather the necessary data and analyze them on a consistent basis. Major policy areas considered include (1) tariff and non-tariff trade barriers; (2) exchange rate distortions; (3) macroeconomic stability, as reflected in small government budget deficits and low inflation; and (4) the degree to which key markets function competitively. Finally, the policy assessment places major weight on recent trends toward or away from macroeconomic stability and structural adjustment. This system of policy assessment may be refined over time, but provides a basis for a broad evaluation of the consistency of the host country policy environment with sustainable, broad-based growth and development.

IX. A.I.D. MANAGEMENT AND STRUCTURES

A. Recent Developments

In May 1991, A.I.D. embarked on a major reorganization. The reorganization followed two parallel implementation paths; a structural reorganization, actually implemented in October of 1991, to improve the span of management control within the Agency, and an ongoing process reform that targets improved output performance and accountability.

To strengthen the capacity for strategic planning, policy development, donor coordination and evaluation, a Policy Directorate was created (as described in Section I.B, above). To improve coordination of A.I.D. programs, an Operations Directorate was established. The structural reorganization expanded the number of geographic bureaus from four to five, reflecting new programs in Central and Eastern Europe and the Baltics. To strengthen oversight of the Agency's budget and staff requirements and improve management, a Finance and Administration Directorate was also established.

As a result, the number of offices reporting directly to the Administrator has been reduced from 27 to 13, and the major line and management functions of the Agency have been consolidated under three Associate Administrators in charge of directorates.

Concurrently, A.I.D. developed and began implementing a management improvement strategy. This strategy requires the development of:

- o a policy agenda to address the realities of the 1990's;
- o action plans that focus on bureau and mission objectives, and identify the resources required, and how missions will measure and report results;
- o a revised resource allocation system that focuses on committing human and financial resources to those programs and countries that are performing well;
- o simplified program design, implementation, and accounting procedures to reduce paper work, target resource use to results, and allow field staff to focus on implementation; and
- o a system that monitors, reports on, and rewards performance.

Implementation of this strategy began with the development of an Agency Management Improvement plan. This plan is focusing on efforts to:

- o simplify how A.I.D. designs and implements development programs and move even more responsibility to field missions;
- o strengthen the personnel evaluation and incentive system so it rewards sound management and encourages those employees who are getting the business of the Agency done effectively;
- o focus A.I.D.'s scarce technical capacities to support development efforts overseas;
- o install an integrated system of development performance measurement, keeping score on the progress we are making in our development programs out in the open where Congress and the taxpayers can see how well we are doing; and,
- o shorten the contracting cycle and open it up to wider competition.

B. Evaluation Procedures and Studies

Strengthening evaluation is a key element of A.I.D.'s emphasis on management excellence. The Center for Development Information and Evaluation (CDIE) has been assigned the lead role in expanding the Agency's evaluation capacity. CDIE is placing major emphasis on developing program performance monitoring systems and evaluations as management tools for senior managers. Evaluations should help managers make more informed programming and policy decisions and help in reporting more convincingly to Congress about A.I.D. performance.

The main elements of CDIE's strengthened and broadened evaluation mandate include responsibilities for:

- o Conducting field-based assessments and special studies focused on (a) the performance and impacts of key Agency sectoral programs and policies, and (b) the effectiveness of key Agency-wide operational procedures and management systems.
- o Disseminating and marketing evaluation findings through tailored written reports, summary highlights,

newsletters, senior managers' bulletins, and oral presentations and workshops for key audiences.

- o Undertaking comprehensive reviews of program performance in major areas of the portfolio and reporting on results annually to the Administrator.
- o Development of an Agency-wide monitoring and reporting system on program performance.
- o Broad support for evaluation and program performance monitoring efforts throughout the Agency, through training, technical assistance, guidance and oversight.

Evaluation Studies

Project-level evaluations in A.I.D. are generally sponsored by individual field missions; they typically examine whether projects are being efficiently and effectively implemented and are most directly useful to the project's managers. CDIE's evaluations on the other hand, focus on a broader, strategic "program" level, that examines the longer term development results in key sectors and policy areas. In addition to effectiveness and efficiency, they look at core development questions such as relevance, impact, sustainability and replicability. These are critical to the development of an overall aid program, strategy and policies, the major concerns of the Agency's senior management.

To improve the objectivity and rigor of its evaluations and to make their findings more relevant to strategic decision-making, CDIE devoted considerable time and effort during FY91 and 92 to revising evaluation methods and procedures and documenting this in guidance handbooks.

CDIE is currently conducting major field-based assessments of development results in key program areas, including export promotion, child survival, family planning, and democracy programs. Assessments are now being planned for FY 1992-94 for capital projects, counter-narcotics, policy reform, private sector and environmental programs. CDIE is also completing a review of the effectiveness of A.I.D.'s in-country (field based) management approach and several other "operations and management" assessments.

C. Program Performance Monitoring for Strategic Management (PRISM)

CDIE is also working to improve program performance monitoring Agency-wide by: strengthening Mission and other operational-level performance information systems, by making performance

information more easily available for decision-making at all organizational levels, and by developing an Agency-wide program performance information system. This effort--called PRISM, for Program Performance Information for Strategic Management--is a key element in Agency-wide programming reforms approved last December aimed at enhancing A.I.D.'s overall ability "to manage for results."

PRISM is being developed collaboratively, with inputs from Bureaus, Missions, and technical staff throughout A.I.D., to reflect actual field programs. PRISM is also being built flexibly, to accommodate changing programs and newly emerging Agency priorities.

Through PRISM, A.I.D. Missions and Offices are:

- (1) Focusing and concentrating their programs on a relatively small number of strategic objectives representing the most significant development results that are within their management interest;
- (2) articulating clear strategies for achieving those objectives;
- (3) identifying measurable performance indicators against those strategies; and
- (3) obtaining and using performance information for strategic management decisions.

By September of 1992, operational program performance information systems will be established in 35 to 40 A.I.D. field Missions. All Missions are expected to be covered by June 1993.

CDIE's first annual program performance report, to be completed by the fall of 1992, will provide an overview of program objectives Agency-wide, substantial data on the results A.I.D. Missions and Offices expect to achieve over the next 3 to 8 years, and initial information on actual accomplishments.

Over time, PRISM will help A.I.D. monitor the performance of its programs more comprehensively, report on its programs more credibly, and manage its programs more strategically to achieve better development results.

D. Financial Accountability

Over the past year, significant changes were made by A.I.D. to improve financial accountability of its grant funds. A.I.D. agreements for grants to host governments, and non-governmental, non-U.S. grantees now contain an audit clause which requires the

recipient and any sub-recipient to have an annual financial audit performed on the use of A.I.D. funds. These required audits are to be performed in accordance with U.S. General Accounting Office auditing standards or any other generally accepted international auditing standards. The A.I.D. Inspector General will conduct quality reviews of these audit reports to determine if the required audit standards are being followed.

X. ASSOCIATED FINANCING AND RELATED ASPECTS

A. Capital Projects

There is considerable evidence that infrastructure investments, when properly designed and implemented within a sound economic policy environment, can help overcome key development constraints, thus stimulating growth and development in other sectors and enabling expansion of markets. To cite but one example, an A.I.D. evaluation of rural road projects showed that new roads greatly reduced hauling prices, improved farmers' incomes, enabled crop diversification, and lowered farmers' input prices.

Aside from their linkages to productive activities, certain types of infrastructure, for example, water and sewage treatment plants, facilitate the direct provision of basic human needs. Clearly, this is also true in the case of roads as they increase the accessibility of many types of social services, e.g., schooling and health. Investment in physical infrastructure may indirectly improve the standard of living through its employment-generating effects. Expansion of port facilities, for example, can support the development or expansion of new, labor-intensive export industries that provide employment opportunities for poor people and a chance to increase productivity and wages.

Capital project assistance can also serve as a vehicle through which technology can be transferred to developing countries. Some of these technologies, such as telecommunications, are considered crucial to the development and growth of private sector economic activity. Capital project assistance can, in principle, help build technical expertise in project implementation and monitoring, management of the investment, and evaluation of economic impact. Other types of capital projects, for example, pollution abatement technologies, can respond to local and global environmental concerns.

In FY 1991, A.I.D. provided a total of \$581 million in annual funding obligations for 27 capital projects in Egypt, Jordan, the Philippines, Indonesia, Sri Lanka, Poland, Guinea, Southern Africa, Belize, El Salvador, and Jamaica, plus two central projects which support capital project activities in the field.

Most of the A.I.D. funding came from the Economic Support Fund (ESF), with lesser amounts derived from the Development Assistance (DA), Development Fund for Africa (DFA), and the Special Assistance Initiatives (SAI) accounts.

For FY 1992, A.I.D. requested approximately \$490 million for 26 capital projects in the same countries noted above. Similarly, the main funding source for these projects is the ESF account, with smaller sums coming from the DA, DFA and SAI accounts.

For FY 1993, A.I.D. requested \$311 million from the same accounts for 23 capital projects in 9 countries. In addition, the Agency requested another \$100 million for a new DA Capital Projects Fund. The specific projects to be supported by this new initiative, assuming the U.S. Congress appropriates resources for the Fund, will be identified based on better focused country-specific assistance strategies. Implementation of A.I.D. capital projects assistance will be in accordance with the new OECD guidelines on tied aid as agreed to in the Helsinki V Package.

B. Tied Aid and Mixed Credits: The New Export Credit Arrangement Restricting Use of Tied Aid

On February 15, 1992, the Participants in the OECD Export Credit Arrangement (the ECA) brought into force the "Helsinki Package," an agreement restricting the use of tied aid to subsidize the exports of donor countries. This important agreement has two goals: first, to ensure that competition for commercially viable projects is based on market criteria (price, quality, and service) rather than on financing subsidies and, second, to ensure that tied aid credits will go to projects that are developmentally sound but that have little chance of access to market financing. The Helsinki Package restricts the use of tied aid in three ways. First, no tied aid to countries with per capita 1991 incomes above \$2,464. Second, no tied aid, to countries with 1991 per capita incomes below \$2,465 for projects that would be "commercially viable" if appropriate market based prices were in effect (however, the 42 "Least Developed Countries" are exempt from this provision). Third, each OECD member must give early notification to all others of plans for any project exceeding SDR 50 million in cost and below 80% in concessionality.

In April of 1991, the OECD's Development Advisory Committee further strengthened these restrictions by establishing rules requiring early notification, mutual appraisal, and international competitive bidding for all such large projects in excess of SDR 50 million.

The "commercially viable" concept introduces a completely new area of international trade law, and the ECA Participants will be

making their findings of "commercially viable" on a case-by-case basis (the Participants have agreed to the presumption that in the four areas of power generation, telecommunications, transportation, and construction equipment all projects are commercially viable unless proved otherwise).

C. War Chest Activities 1990-91

From late 1987 through late 1989, the War Chest was utilized for defensive purposes only-- to respond to competitor countries' tied aid credit offers extended in violation of the newly negotiated tied aid agreement of 1987. During the late 1980s, however, few violations to the tied aid agreement occurred, resulting in decreased use of the War Chest.

New guidelines for the use of the War Chest were established as part of the 1989 U.S. Government policy decisions relating to tied aid. These guidelines targeted War Chest resources to the initiation of tied aid credit offers in "spoiled" markets to create a level playing field for U.S. exporters and to discourage the use of tied aid. The new guidelines have been designed to foster U.S. participation in technological sectors of American comparative advantage: telecommunications, power, transportation and construction equipment. These markets are where a large share of trade-distorting tied aid is offered by other countries.

The U.S. Congress authorized \$300 million for the War Chest for fiscal years 1990 and 1991. Appropriations were \$110 million in FY 1990 and \$150 million for FY 1991. In FY 1990, over \$53 million in War Chest grants were used to leverage over \$228 million in U.S. exports. In FY 1991, over \$145 million in War Chest funding leveraged \$532 million in U.S. exports. Since 1987, nearly \$285 million in War Chest resources have supported over \$1 billion in U.S. exports.

XI. PROCUREMENT POLICIES AND PRACTICES

During 1991, the U.S. Agency for International Development has undertaken several important initiatives to modify its procurement practices and policies in light of the changing environment in which it operates.

In view of the historic transformations of the states of Eastern Europe and the former Soviet Union, A.I.D. has removed their ineligibility to participate as sources for procurement for A.I.D.-financed transactions.

With those countries in mind, as well as other developing countries, A.I.D. has been participating in the U.S. delegation

to UNCITRAL (the U.N. Commission on International Trade Law) to prepare the final version of a Model Procurement Law.

To relieve the administrative burden of program and project implementation, A.I.D. is also experimenting with new forms of contracting, which will combine design and implementation work into a single contracting action. For similar reasons, A.I.D. is considering new ways to involve contractors in the administration of the grants it makes to private voluntary organizations. A.I.D. is continuing its review of the terms and conditions of its grants to public international organizations.

A.I.D. has developed the Procurement Information Access System, using the Department of Commerce computerized Economic Bulletin Board service, to alert subscribers in the contracting community to upcoming procurement opportunities.

XII. SECTOR ORIENTATIONS OF A.I.D.

A. Food Security and Food Aid

Food security is achieved when all people at all times have both physical and economic access to sufficient food to meet their dietary needs for a productive and healthy life. Within this context, three distinct variables are central to the attainment of food security objectives: availability, access and utilization. Food aid is one of the several resources available to the United States Government to help pursue food security objectives in developing countries.

Most U.S. food aid programs are authorized under Public Law 480 (PL 480). The donation of U.S. surplus commodities held by the Commodity Credit Corporation, when available, for humanitarian assistance is authorized under the Agriculture Act of 1949, as amended.

The overriding objective of PL 480 food aid programs is the use of agricultural commodities and local currencies generated by their sale to enhance the food security of the developing world. The focus of the U.S. Department of Agriculture-managed Title I trade and development assistance sales program is market development. In FY 1991, Title I programs in 17 developing countries with a total value of \$460.5 million were approved.

Non-emergency assistance authorized under the A.I.D.-managed Title II emergency and private assistance grant food aid program is provided through private voluntary organizations (PVOs) and multilateral organizations, such as the World Food Program (WFP), while emergency assistance may be provided either through PVOs and WFP or on a bilateral basis. Total Title II assistance in FY

1991 was \$815.1 million, of which about one-half was for emergency assistance.

Under the new Title III food for development program, also managed by A.I.D., bilateral food aid grant agreements with 14 "least developed" countries totalled \$276.9 million. All of these programs, except for one, included policy reform conditionality related to problems associated with food insecurity. In addition, each program was designed as an integral component of the total development assistance strategy and portfolio for each country as required by legislation.

During FY 1991, implementation of both the farmer-to-farmer grant program and assistance and Food for Progress food assistance program was expanded to include assistance to emerging democracies. Also, as required by law, the newly created Food A.I.D. Consultative Group participated in revisions of Title II guidance and Regulation 11. As authorized by PL 480, \$10.0 million in grant funds were provided to PVOs and cooperative development organizations (CDOs) to help cover administrative and support costs associated with Title II food aid programs.

B. Agriculture and Rural Development

Agriculture plays a central role in contributing to overall growth in most developing countries. Therefore, the sector continues to be a major area for U.S. development assistance to these countries. A.I.D. assists the development of improved capacities for policy analysis and reform and for finding and using cost-reducing technologies to substantially increase crop yields.

Continued agricultural growth via land expansion is no longer a viable option. In fact, the arable land resource base is shrinking due to erosion, desertification, and urbanization. Thus, developing countries require science-led agricultural development that is not only economically remunerative to the farmer, but also environmentally sound.

U.S. assistance resources committed to agriculture, rural development and nutrition are designed to increase incomes for the poor majority, expand the availability and consumption of food, and maintain and enhance the natural resource base on which sustainable agricultural growth depends. In this context, the U.S. supports agricultural interventions that are designed to:

- encourage efficient, low-cost and sustainable production of food and other crops for local consumption and export;

- promote efficient private agriculture processing, marketing and distribution systems for food produced domestically and imported;
- increase farm and non-farm employment and incomes to enable rural households to purchase available food;
- incorporate sound nutritional and food consumption principles into the design and implementation of economic development activities; and
- provide food assistance, including targeted food assistance, to people currently unable to exercise market demand, which particular attention to children and women in low-income families.

C. Aid for Energy

The broad goal of A.I.D.'s energy program continues to be the promotion of cost-effective, efficient, reliable and environmentally sound energy supplies to meet development needs. The Agency provides innovative mechanisms and approaches for helping to solve the growing energy crisis in developing countries. Activities focus on four primary areas-increased energy efficiency, improved national energy planning and investment decision making, enlarged private sector participation, and greater use of renewable energy resources.

Annual energy program obligations from Development Assistance/DFA and Economic Support Funds totalled approximately \$140 million in FY 1991. To enhance their impact, DA funds and some ESF funds are used to leverage additional financial resources from multilateral development banks such as the World Bank and the Inter-American Development Bank, the private sector, and other bilateral donors. A.I.D. has created a fund of approximately \$1 million per year to support innovative approaches to solving energy and environmental problems in developing countries. The fund will emphasize pre-investment work in efficiency, private capital mobilization, environmentally-sound energy technology and regulatory reform. In India, an A.I.D. grant program of \$20 million-the Energy Management Consultation and Training Project (EMCAT)-will provide technical assistance and training to improve both supply and demand-side efficiency in the power sector. The EMCAT project will leverage over \$1 billion in loans for the Government of India, the World Bank, and the Asian Development Bank.

A.I.D. intends to implement about \$150 million in Global Environmental Facility (GEF) Projects during FY 1992-1994. Of this, energy and greenhouse gas emissions reduction projects will account for approximately \$60-\$75 million. GEF power sector

projects in renewable, efficiency and clean fossil technology are being prepared.

D. A.I.D. and the Environment

Environmental degradation is a growing threat to all nations. How to manage wisely, and conserve, the Earth's natural resources -- while promoting broad-based economic growth in developing countries -- is an increasingly vital question for A.I.D. For over a quarter century, A.I.D. has followed procedures to ensure that its assistance activities are environmentally sound, refining its techniques as new methods, information, and realization of the actual magnitude of environmental problems became known.

A.I.D. seeks, increasingly, to incorporate environmental concerns into all of its development programs. Its environmental strategy for the 1990s focuses on helping A.I.D.-assisted countries to cope with (1) loss or degradation of tropical forests and other critical habitats for biological diversity; (2) urban and industrial pollution; (3) degradation and depletion of water and coastal resources; (4) environmentally unsound energy production and use; and (5) unsustainable agricultural practices.

A.I.D. has long supported traditional environmental activities, like natural resources inventorying, analysis, and management; conservation of biological and genetic diversity; water quality improvement; and environmental education. Today, it is also increasingly a catalyst for seeking solutions to global environmental problems. The potential for global climate change, the deteriorating quality of air and water, the need to preserve the Earth's natural biological base -- are all key issues affecting the shape of A.I.D.'s development assistance goals.

Along with assisting specific projects, A.I.D. encourages and supports efforts of developing countries to design policies both economically and environmentally sound. It helps strengthen the capacity of environmental institutions by providing training and technical assistance and by encouraging grassroots efforts to protect the environment. Lastly, it assists countries to determine an appropriate role for both their private and public sectors in protecting the environment, particularly encouraging innovative private sector responses.

A typical area of A.I.D. focus, the United States-Asia Environmental Partnership is an unprecedented coalition of U.S. and Asian businesses, governments and community groups working together to enhance Asia's environment through fellowships and training, technology cooperation, environmental infrastructure, and creation of a new regional biodiversity conservation network.

The Agency's current annual funding level for these efforts exceeds \$400 million, plus another \$150 million for energy efficiency and conservation and renewable energy, and additional significant amounts for sustainable agriculture activities. This does not include A.I.D. funds for population assistance, economic reform and stabilization, and a variety of other poverty alleviation programs aimed at reducing the pressures that lead to environmental degradation. A.I.D. also provides parallel financing to support projects coordinated with to support the Global Environment Facility (GEF), an IBRD-managed facility discussed in Chapter XV.

E. Aid for Health

In planning for the coming decade, at least three major trends are likely to pose new and difficult challenges for developing country health care systems. These challenges include:

(1) Increasing Numbers of Children. Notwithstanding dramatic successes in family planning around the world, the size of the under-five year age population will continue to increase well into the next century. Resources must increase two percent every year simply to maintain current levels of program coverage.

In terms of the needs of children, child survival programs supported by A.I.D. and other donors have been successful in reaching an ever growing proportion of children with basic immunization services and oral rehydration therapy. A.I.D. continues to support efforts to sustain these successes, to improve the quality of child survival services, and to focus on additional interventions, including acute respiratory infection, breastfeeding, micronutrient supplementation, and prevention of low birth weight and neonatal mortality.

(2) Increasing Numbers of Seniors. Developing country populations are aging. The resulting increase in chronic diseases and disabilities will tax health systems ill prepared to deal with a spectrum of "modern" diseases.

To address the needs of aging populations, A.I.D. is implementing a research strategy focused on improved data, case studies on the economic impact of aging on the health sector, and information dissemination. A.I.D. plans to work with developing countries to identify and adapt the most effective approaches to prevent and treat emerging health problems.

(3) Increasing Urbanization. By the end of the decade, more than half of the world's population will live in cities. Disease patterns are likely to be different in crowded urban areas than in the countryside. Diseases associated with unhealthy, polluted,

and dangerous urban settings and "new" diseases (AIDS, substance abuse) pose real challenges.

In response to increasing urbanization and disease transmission, A.I.D. will focus increasingly on urban health and environmental health problems through new programs being developed in these areas. A.I.D. also will continue to support research and interventions aimed at controlling the spread of malaria and other tropical diseases.

F. Aid for Population

There is a growing demand for family planning services as populations increase, and countries experience rapid urbanization, improvements in public health, and decreased rates of child mortality. By its commitment to voluntary family planning, A.I.D. supports couples in their own reproductive decisions.

In fiscal year 1991, A.I.D. provided approximately \$351 million in population assistance from the Development Assistance Account, the Development Fund for Africa, and the Economic Support Fund. Approximately 80% of this assistance was directed to family planning service delivery and supporting activities such as education, training and the purchase of contraceptives. Other funds are used for demographic data collection, policy analysis, and operational and biomedical research.

As the strain of rapid population growth on developing countries' resources and social systems becomes clearer and the demand for family planning by developing country couples expands, requests for population assistance are increasing. In response, A.I.D. is giving increased attention to ensuring that needs for family planning services can be provided within developing country settings on a sustained basis. A.I.D. funds research and development of new and improved contraceptive technologies, the transfer of appropriate contraceptive and communications technologies, improved methodologies for program evaluation, management development and training, private sector approaches to family planning services provision, and the establishment of efficient contraceptive logistics and marketing systems. Through a range of approaches, A.I.D. is successfully mobilizing other public and private sector resources for family planning programs. For example, several multinational and national firms in developing countries provide family planning services to their employees. A.I.D. is also promoting the marketing of contraceptives through commercial channels in countries, such as Indonesia, where extensive distribution systems already exist for pharmaceutical and health products. Additionally, A.I.D. is encouraging other bilateral and multilateral donors to finance the purchase and/or local production of contraceptives.

G. Acquired Immune Deficiency Syndrome (AIDS)

In fiscal year 1991, A.I.D. committed over \$50 million to AIDS prevention and control worldwide. Approximately 30% of these funds supported the work of WHO's Global Programme on AIDS (WHO/GPA). This program has taken great strides in helping developing countries prepare national AIDS prevention plans. Implementation of these plans will depend on consistent donor support of WHO/GPA and country efforts. A.I.D. provides substantial financial support as well as technical assistance to the international effort.

In addition to direct support of WHO/GPA, U.S.-funded bilateral AIDS prevention activities are under way in more than 50 developing countries. A.I.D. is providing commodities and technical assistance in disease surveillance, awareness-raising, promotion of change of high-risk behaviors, blood transfusion screening, control of sexually transmitted diseases, and the distribution of badly needed supplies and equipment. A.I.D. also helps health-service providers analyze costs so they can better allocate scarce resources. These include private voluntary organizations, which have a remarkable capacity to act rapidly and catalyze community response in times of crisis.

H. Aid for Education and Human Resources Development

Basic education for children, inclusive of early childhood interventions, and human resource development for adults are important investments in social and economic development. In Fiscal Year 1991 A.I.D. provided approximately \$180 million in support of education and approximately \$260 million in support of training programs, including approximately \$170 million of external training.

Within this sector, A.I.D.'s focus on Education and Human Resources (EHR) programs will continue to strengthen basic primary and secondary schooling systems and provide training in the United States and developing countries. A.I.D. education and training assistance responds to the continuing needs of developing countries and to new opportunities for comprehensive, coordinated support of the sector.

A.I.D. supports national efforts to mobilize, allocate and manage education resources more effectively and provides technical support to strengthen analytic and administrative capacities enabling countries to identify and implement solutions to education problems.

A.I.D. advocates aggressive efforts to involve nongovernmental organizations, the private sector, communities and parents in

education decision-making and in the management and mobilization of education resources.

A.I.D.'s education assistance is designed within the context of increased multi-donor collaboration and coordination. A.I.D., also recognizes the need to broaden the participation of U.S. educational and training institutions including the private sector in development activities and to mobilize additional domestic expertise as A.I.D. moves to give increasing emphasis to systems management, quality control, and maintenance requirements.

Increasingly, A.I.D. supports non-project assistance (NPA) approaches with elements of budget support conditioned on policy and management changes. This requires increased attention to education research and analysis, to management systems and to the monitoring of education progress against the agreed national objectives.

I. Private Enterprise Development

The goal of A.I.D.'s private enterprise program is to mobilize and increase the participation of private sector in development. The program is based on the belief that developing countries which have achieved the most spectacular broad-based economic growth are those which have promoted the expansion of their private sector and free market systems. Productive private enterprises generate increased income purchasing power, employment opportunities and overall economic growth.

A.I.D.'s private enterprise program is designed primarily to promote the establishment of a climate conducive to private sector activity in developing countries rather than to finance individual business per se. The private enterprise program is diverse, encompassing a wide variety of programs and activities in policy reform, financial markets development, trade and investment promotion, privatization, training/human resource development and small and microenterprise development. Aspects of policy reform and training/human resource development are found elsewhere in this report and all activities discussed below.

In FY 1991, A.I.D. obligated \$1,274 million in Development Assistance, Economic Support Funds and Special Assistance Initiative funds in support of private enterprise development and \$1,373 million is planned in FY 1992. These figures include obligations for policy reform activities as well as direct assistance to private enterprise and the use of the private sector in delivering traditional government services. Local currencies generated through other A.I.D. programs provide

additional resources for private enterprise development activities.

1. Financial Markets Development

Effective financial markets are indispensable to the pursuit of sustained, broad-based economic growth. A.I.D.'s policy in this area is designed to promote financial market systems that are integrated and relatively undistorted. A.I.D.'s policy stimulates competition among financial institutions within a given country and encourages country-level policies that facilitate competition. Such systems generally are better able to mobilize private savings, allocate such savings to investments yielding high returns, and increase the participation of the people in efficient financial markets.

2. Trade and Investment Promotion

A.I.D.'s trade development policy encourages developing countries to view international trade as a key instrument in the process of achieving broad-based, sustained economic growth and to place greater reliance on complementary domestic competitive markets that support more open trade policies. A.I.D.'s investment and trade promotion policy focuses on building long-term private enterprise ties between developed and developing countries, consistent with U.S. trade liberalization objectives.

3. Privatization & Private Provision of Social Services

A.I.D. considers privatization of state owned productive enterprises an activity that can stimulate interest in the adoption of market-based allocation systems. Successful privatization results in increased competition among enterprises and, in the medium and long-term, increases employment and incomes.

Between 1985 and 1990, A.I.D. supported many privatization activities around the world through its contract with the Center for Privatization (CFP). The groundwork for privatization was laid in many countries and active privatization strategies launched in Costa Rica, Honduras, Tunisia and Jamaica with CFP's help during this period.

The International Privatization Group (IPG) with Price Waterhouse was established in 1990 to implement a five-year privatization project. IPG provides technical and financial advisory services, with a primary focus on the design, preparation and implementation of privatization transactions. Demand for IPG's services has been great, initially in Central and Eastern Europe and Asia. Current demand for IPG assistance is growing most rapidly in the Africa region.

4. Microenterprise Development

Microenterprise assistance is an important element of A.I.D.'s private enterprise development strategy. It is particularly important in advancing the goal of broad-based economic growth, specifically through increasing the incomes of the poor, providing opportunities for advancement of microentrepreneurs, and encouraging indigenous investment. A major objective of the program is to help people lacking access to capital to obtain the capital they need to achieve a higher level of business activity, expand employment, and increase income.

A.I.D.'s assistance to microenterprises is provided through a well-balanced mix of program types, with a strong focus on financial services and the development of institutions able to provide such services widely and sustainably. As of FY 1991, A.I.D. was actively supporting the microenterprise activities of over 140 counterpart organizations in 51 different countries, through A.I.D. missions and 13 U.S. private voluntary organizations. The largest portion of that assistance took the form of credit for entrepreneurs (36% of the total). A fifth of A.I.D.'s resources was devoted to training and extension for microentrepreneurs, while 29% supported the institutional development of the credit and training providers. These are most frequently local non-governmental organizations (NGOs), but are also government programs, financial institutions, credit unions, and international NGOs. The remaining portion of A.I.D.'s microenterprise program includes a mix of policy and regulatory reform and other types of assistance.

J. Aid for Narcotics Abuse and Prevention

A.I.D.'s anti-narcotics program has been an important part of its development program emphasis during the 1980's and will likely remain an A.I.D. priority through the 1990's. A.I.D. works closely with the State Department, the President's Office of National Drug Control Policy and other national and international organizations to fight the growth and abuse of narcotics that hamper economic development. Programmatic methods include: (1) alternative development and income substitution, (2) macro-level economic assistance, (3) narcotics awareness and education, and (4) Administration of Justice programs.

The current focus of A.I.D.'s anti-narcotics programs is in Latin America, with Bolivia, Colombia, and Peru receiving the bulk of funding. (The program in Peru has been suspended as a result of developments there in April). About \$272 million is expected to be committed on narcotics-related activities during FY 1992 in support of programs in the above listed countries.

K. Democratic Initiatives: Democracy and Governance

General Principles and Basic Approach: A.I.D. has long been involved in support for participatory development. The Foreign Assistance Act of 1961, which is the basic legal authority for the current U.S. foreign assistance program, specifically cites building democratic institutions as one goal. In 1967, the Foreign Assistance Act was amended to emphasize "maximum participation in the task of economic development ... through the encouragement of democratic private and local governmental institutions." Subsequent amendments in 1974 and 1978 highlighted human rights, both as an important element of U.S. economic aid programs and as a consideration in the provision of U.S. assistance.

In December 1990, A.I.D. issued the "Democracy Initiative" which called for the Agency to focus its "experience, skills and resources explicitly to help promote and consolidate democracy." the Democracy Initiative proposed four different ways this would be done:

1. Integrate support for democratic and participatory systems into the broad range of A.I.D. activities;
2. Establish progress toward democracy as a criterion for country budget allocations;
3. Provide direct support for democratic institutions where appropriate; and
4. Seek legislative authority to facilitate a rapid response in countries where a "democratic breakthrough" occurs and timely assistance is needed to support the democratic process.

The Democracy Initiative was followed in November 1991 by a policy paper, "Democracy and Governance." This paper outlines the objectives, scope, limitations and guidelines which are to govern A.I.D. programs in support of democratic systems, human rights and accountable governance. This is the latest, most complete and authoritative statement of current A.I.D. policy on these issues.

XIII. WOMEN AND DEVELOPMENT

The Office of Women in Development (WID) in the United States Agency for International Development (A.I.D.) uses its resources to ensure gender considerations at all stages of the program and project development process. There is a growing demand by Missions and Bureaus for WID training and technical assistance, including demands for use of matching funds.

The WID program initiated a comprehensive strategic planning process in January, 1992 to maximize WID Office effectiveness in administration, management, programs and policy within A.I.D. following WID's move from the Program and Policy Coordination Bureau to the new Bureau for Research and Development.

A. Implementation of Women in Development Policies

Systematic consideration of WID issues within A.I.D. has been enhanced by the following activities:

In regional and central bureaus:

- o Africa, Asia, and Latin American Bureaus have hired full-time WID specialists and the Near East Bureau is starting the search for a WID specialist;
- o Three full-time WID specialists are employed in 3 regional offices in Africa;
- o WID working groups continue to function in all regional bureaus;
- o Field missions have at least a part-time person designated as a WID Officer and most missions have or are developing a WID Action Plan;
- o The Research and Development Bureau has completed an office by office exercise to identify "lessons learned" about integrating WID into projects; and
- o Participation of WID specialists on strategic objective and monitoring and evaluation teams.

The WID Office in A.I.D./Washington has:

- o completed state-of-the art papers on Women and Structural Adjustment, Girl's Primary Education, and Gender and Food Aid;
- o produced a series of sector-specific training modules on WID;
- o expanded the breath and depth of its training portfolio to include more host-country nationals, PVOs and NGOs; and
- o collaborated with the WID Offices of other donor organizations to coordinate WID databases and establish an efficient system for sharing data.

B. Program and Project Activities

A.I.D. is implementing an agency-wide Program Performance Information for Strategic Management (PRISM) Project in the Center for Development Information and Evaluation (CDIE). The WID Office has worked in close collaboration with CDIE and PRISM to insure the inclusion of gender considerations in the process.

We are providing incremental funding to the project core and also supporting, with CDIE, several special studies to improve indicators of women's participation in the development process.

As part of WID's collaboration with CDIE, a workshop has been developed to improve skills for monitoring the people-level impact of development. The first of these workshops was held on April 15th, 1992.

R&D/WID's technical assistance role has increased dramatically over the past year. Assistance was provided through over 50 field activities by the Gender in Economic and Social Systems (GENESYS) Support Project, the WID Office Staff, an Ecology, Community, Organization and Gender (ECOGEN) Project, the Advancing Basic Education and Literacy (ABEL) Project and a new Cooperative Agreement with the Consortium for International Development (CID) with the University of Arizona as the lead institution.

C. Strengthening WID in PVOs and Multilaterals

Projects in Latin America and Africa have held training for women's community groups and local PVOs to increase their capacity to influence policy, participate in municipal governments and strengthen their role in natural resource management decision-making. Leadership training for women in business will be carried out under several projects during the coming year.

A.I.D./WID is working closely with the DAC WID Group to analyze, compare, and verify the institutionalization of DAC WID Guiding Principles in the donor organizations. Specifically the U. S. will support the preparation of the desktop review, development and analysis of the a questionnaire on key areas, and the preparation of case studies (in collaboration with Switzerland.)

D. Research on Women and Development

The Women in Development Office is working through several contracts to develop improved methods for collection and analysis of data on inter- and intra-household activities for the purpose of better informing development planning.

Two studies were commissioned by the WID Office to examine the effects of political restructuring on women in legislative bodies in Eastern Europe, in Hungary and Poland. Results show that women's participation in these decision-making bodies has declined.

The ECOGEN Project has completed fieldwork on women's roles in community-based natural resource management for five case studies in Kenya and one on Siquijor Island in the Philippines.

Work continues on a Latin America and Caribbean Bureau WID Research Agenda. Studies are underway on Democratic Initiatives in Honduras, Trade and Investment in Ecuador and Natural Resource Management in the Caribbean.

E. Training and Information Services

Thirty-four separate WID training activities were completed and/or are in the planning process for the period between 1 October, 1991 and 30 September, 1992. Among these was training for the DAC High Commission, the African Development Bank, regional bureaus, A.I.D. new entry training, CARE, and several in-country A.I.D. Missions.

XIV. NON-GOVERNMENTAL ORGANIZATIONS

A. Role and Share of PVOs in U.S. Aid Programs

United States Non-Governmental Organizations have been active in humanitarian work abroad for more than a century. In the years since World War II, their activities on a variety of continents and in a range of program areas have shown a marked upswing. In the past twenty years in particular, NGOs have expanded their focus from providing relief, disaster assistance and food distribution and direct their energies more intensively toward alleviating the underlying causes of world hunger and poverty.

Historically, the U.S. foreign assistance program has evolved in tandem with a strong partnership between A.I.D. and a large cadre of NGOs - or, PVOs. Most recently, A.I.D./PVOs collaboration has focused on the task of enabling indigenous organizations to undertake their own development activities. While continuing to be responsive to immediate human needs, particularly in emergency situations, many PVOs are now contributing their valuable resources to a third generation of activities which A.I.D. considers crucial to sustaining improved conditions in the Third World: such as building local institutions, transferring skills and encouraging investments in the private and independent sectors.

This partnership can take several forms. First, PVOs act as independent agents, conducting their own programs with A.I.D.'s support. They can also act as intermediaries for A.I.D., specially where A.I.D. strategies and PVO project objectives coincide in developing countries. While each type of partnership

is different, all joint A.I.D./PVO projects seek to maintain the independent and private nature of PVOs.

The economic impact of the PVO programs supported by A.I.D. has been enhanced by: placing increased emphasis on strategic planning and management; developing self-evaluation capability within PVOs; investing and upgrading the skills of technical personnel; and by encouraging partnership for life between U.S. PVOs and local institutions.

As of October 1, 1991, there were 301 PVOs registered with A.I.D. which had received support and revenue from the U.S. Government totaling \$1,097,035,599 in the form of grants, contracts, U.S. Government-owned excess property, ocean freight subsidies, and P.L.-480 donated food, and, \$2,109,644,936 in non-U.S. Government support from private revenue and contributions, donated goods and services.

B. Evaluation of Non-Governmental Organizations

A.I.D. has initiated a special assessment of non-governmental organizations (NGOs) and how they can best work with A.I.D. to improve development programs. Case studies will include at least six countries in which there are USAID Mission NGO strategies. The assessment will also include alternatives in NGO strategy implementation when Missions are confronted with corrupt or unacceptable governmental partners. There will be a desk study as well as field visits.

The focus will be on answering the following questions: to what extent can NGOs be relied upon to achieve critical development goals; what types of projects can NGOs effectively implement, and what types of projects, if any, with which they have difficulty; what should be the relationship of the recipient government to A.I.D. and the NGO to assure the effectiveness of an NGO project; and how can U.S.-based and indigenous NGOs best ensure the sustainability of their development efforts.

The study will start in FY 92 and the results will be disseminated during the first quarter of FY 93.

XV. BROADER INSTRUMENTS OF DEVELOPMENT COOPERATION:

In every region of the world there have been dramatic changes in terms of the conceptual thoughts on economic development, and the successfully demonstrated methods to achieve and maintain the higher standard of living for populace at masse. The U.S. underlying development cooperation objective is based on the paradigms of market-friendly, free-trade-oriented, private sector

driven, environmentally sound, sustainable and equitable growth process with a human face that benefits all the mankind.

On a global basis, U.S. foreign assistance programs continue to address the broader aspects of development that requires investments in the critical areas of human resource development; economic policy reform; institutional and physical infrastructure development; and democratization, governance and political pluralism. To achieve these objectives, the U.S. exercises its options and influence through bilateral as well as multilateral venues such as the World Bank, the IMF, Regional Banks and the United Nations: In the recent past, the broader instruments the U.S. used to advance its agenda are summarized in the following sections.

A. International Business Linkages

A.I.D. places high priority on creating a favorable climate for private enterprise in developing countries and on using private sector resources to spur the economic development of those countries. To this end, A.I.D. has developed the capacity to coordinate and support economic development in A.I.D. recipient countries by combining the resources of A.I.D. and other federal and state agencies with the expertise and resources of the U.S. private sector.

For example, the Center for Trade and Investment Services (CTIS), to be located at A.I.D.'s Washington headquarters, will serve as the Agency's information and referral service to foster and promote linkages between the indigenous private sectors in A.I.D.-assisted countries and the private sector of the United States. It is anticipated that the center will become operational in the spring of 1992.

CTIS will be a full-service, comprehensive "one-stop" information center to provide information on A.I.D.'s private sector programs, along with trade and investment information and support services. The center will be A.I.D.'s focal point for the collection and dissemination of information to U.S. firms and organizations on programs and activities that support international private enterprise in A.I.D.-assisted developing countries.

The International Executive Service Corps (IESC) and A.I.D. established the Trade and Investment services (TIS) program to link firms in developing countries with companies in the U.S. to improve the competitiveness of both in the emerging global economy. TIS uses the resources of IESC's network of more than 11,000 volunteer industry experts, U.S. field representatives, supporting companies, and professional staff to operate target trade and investment promotion programs in developing countries.

The primary objective of TIS programs is to develop mutually beneficial joint and co-ventures as well as other business opportunities between U.S. firms and small and medium-sized companies in the developing world. TIS business development services include industry-specific expertise, information, linkage mechanisms, and technical assistance.

The Market and Technology Access Project (MTAP) provides Missions with access to specialized training components, technical assistance consulting and business-development support services. Primarily designed to address trade development and technology transfer problems for agribusiness, forestry and non-traditional tourism sub-sectors, its recent focus has been in the areas of trade and investment promotion, market-entry strategies and, the strengthening of industry associations. MTAP is intended to assist in developing private enterprise strategies and programs on a cost-effective, sustainable basis -- accelerating the growth of business and technology linkages between the U.S. and developing countries. Working through a contractor, Promote Management Consulting Corporation (IMCC) and a grantee, the National Association of State Development Agencies (NASDA), MTAP offers a flexible mechanism for launching and testing new investment, trade and technology-transfer initiatives.

B. North America Free Trade Agreement

Trade is a fundamental building block of prosperity and stability in our hemisphere and throughout the world. The U.S. is pursuing a very active trade policy to open markets and expand trade among the nations of this hemisphere and throughout the world. The economic opportunities and expansions within the North American region, which will result from the implementation of the North American Free Trade Agreement (NAFTA), will support the achievement of sustainable economic growth.

In negotiating NAFTA the U.S. is designing a free trade program that will facilitate the combination of existing and future bilateral and multilateral free trade agreements. The EAI will eventually lead to the creation of a free market throughout the Hemisphere limited by sanitary and phytosanitary concerns. In negotiating NAFTA, the U.S. is aware of the potential impact of this policy on the multilateral trading system. NAFTA will not erect new barriers vis-a-vis third countries. Indeed, the agreement will offer opportunities for other countries to expand their market base as well.

C. Enterprise for the Americas Initiative (EAI)

The Enterprise for the Americas Initiative (EAI), announced by President Bush in June 1990, seeks to promote economic growth and political stability in Latin America and the Caribbean (LAC) by providing trade, investment, and debt relief benefits to countries undertaking major economic policy reforms. The trade component of the EAI envisions a hemispheric-wide free trade area benefiting all of the countries of the Americas. Sixteen trade and investment framework agreements have been signed, covering 31 countries, and the trade and investment councils established under these agreements have begun their discussions. Negotiations are under way for a North American Free Trade Agreement among the United States, Mexico, and Canada. President Bush indicated that after NAFTA negotiations are concluded, negotiations will commence with Chile.

In October 1990, part of the debt-relief component of the EAI became effective when the Agricultural Trade Development and Assistance Act authorized reduction of PL 480 (concessional food aid) debt. During 1991 debt reduction agreements were signed with Chile, Bolivia, and Jamaica. Other debt-relief proposals are awaiting Congressional action.

In addition, legislative authority from the FY 1989 foreign assistance appropriations act was used by A.I.D. to forgive debt owed by Bolivia, Guyana, Honduras, and Nicaragua. Total U.S. debt forgiveness in Latin America and the Caribbean for 1991 was over \$1.5 billion.

The EAI also includes initiatives which address the relationship between economic development and the environment. The environmental provisions of the EAI will be outlined under an Environmental Framework Agreement individually signed with eligible countries. Environmental framework agreements introduce a structure intended to nurture local support for community-based conservation and sustainable use of the environment and provide the framework for programming and managing the local currencies deposited into an Environmental Fund as a result of debt forgiveness under the EAI. Disbursements from the Environmental Fund will be administered by the eligible country. Funds will be used to support environmental projects approved by a local board which administers the fund. The framework agreement defines a range of activities eligible to receive assistance through the Fund. Among these activities are: agricultural projects, including those which provide for the biological prevention and control of animal and plant pests and diseases, that benefit the environment; and local community initiatives that promote conservation and sustainable use of the environment. Environmental Framework Agreements have been signed with Bolivia, Chile, and Jamaica.

D. United States - Asia Environmental Partnership

On January 4, 1992, President George Bush launched the United States-Asia Environmental Partnership (US-AEP) in Singapore. This creative new initiative brings together Asian and U.S. businesses, non-governmental organizations, and governments to enhance Asia's environment and promote economic progress. Asian and Pacific nations and territories face mounting environmental problems as well as outdated and inefficient energy sources. In the process of meeting our own environmental challenges, the U.S. has developed environmental products, services, technologies and know-how that can assist Asia in solving its environmental problems.

Four components have been designed to focus U.S. expertise and resources on Asia's environmental and energy needs. The **Environmental Fellowship and Training** will: 1) place fellows from American business, trade, and environmental organizations with Asian industry, government, and community organizations; and 2) bring their Asian counterparts to the U.S. for similar placements or for policy or technical training. **Technology Cooperation** will: 1) establish environmental business centers in the region to showcase new U.S. technologies; 2) collect and distribute relevant and timely information such as market trends and business opportunities; and 3) assist in the introduction of new U.S. technologies in Asia. **Environmental and Energy Infrastructure** will address Asia's fast-expanding need for efficient infrastructure to cope with environmental pollution, rapid urbanization, natural resource degradation, and industrial development. The program will: 1) set up a one-stop facility for U.S. government finance coordination; and 2) alert U.S. companies to infrastructure opportunities. The **Regional Biodiversity Conservation Network** will join the strengths of science and commerce to develop and test the marketability of new products (such as medicines, foods, and pharmaceutical products) that will simultaneously improve the livelihoods of local Asian communities and conserve natural resources.

E. Global Environmental Facility

In March 1991, the U.S. government pledged to support the Global Environment Facility (GEF), a three-year pilot facility created to address four global environmental issues: conservation of biodiversity; limitation of greenhouse gas emissions; reduction of pollution in international waterways; and protection of the ozone layer. Housed in the World Bank, the GEF is jointly managed by the World Bank, the United Nations Environment Program and the United Nations Development Program. Overall funding for the GEF is estimated to be about \$1.3 billion over three years. Funding has been pledged by 24 countries, including nine from the developing world.

The United States will provide \$150 million in parallel financing over three years (ie., 1992-1994) to support A.I.D. projects coordinated with GEF, and recently announced its intention to provide an additional \$50 million directly to the GEF. To date, A.I.D. has submitted 12 environmental projects to the GEF for its consideration. Of these, five projects were found acceptable by the GEF implementing agencies (World Bank, UNDP and UNEP) for presentation to GEF participating governments in the GEF's third tranche. The five projects, which are worth over \$30 million, support biodiversity conservation and pollution prevention in international waterways. They complement the GEF portfolio by emphasizing education, training, public awareness, and strong private sector involvement.

F. Generalized System of Preference (GSP) Renewal

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 approximately 4300 products from 136 beneficiary countries and territories. The program excludes most textiles and watches, certain leather goods, as well as other items determined to be import sensitive, such as steel, glass, and electronic articles. In 1991, the U.S. imported nearly \$14 billion of products under its GSP program, an increase of 23 percent over the figure for 1990. GSP imports represented approximately 12 percent of overall U.S. trade with beneficiary countries in 1991.

The U.S. continued to expand the GSP program in 1991. A total of 59 new products were added to GSP eligibility, and Bulgaria was added to the program. In addition, GSP treatment was restored on all eligible products from the Central African Republic, Chile, and Paraguay. Competitive need limits were waived for certain products from Mexico, the Philippines, Poland, and Malaysia.

In 1991, GSP benefits were withdrawn for one chemical product and for one country (Sudan), while a small number of countries had benefits withdrawn for a limited number of products. Requests to grant additional benefits for 82 products are being considered as part of the 1991 annual review.

Latvia, Lithuania, and Estonia were added to the list of GSP beneficiary countries effective February 21, 1992.

The U.S. GSP program was authorized under the Trade Act of 1974, and was renewed through July 4, 1993 by the Trade and Tariff Act of 1984. The U.S. will carry out a thorough and timely review to determine whether to renew the program, and if so, what changes to the program shall be made.

APPENDIX: ILLUSTRATIVE A.I.D. COUNTRY PROGRAMS

1. ASIA: Illustrative Country Program in Sri Lanka

Background: Sri Lanka has the potential to become Asia's next success story. Despite the civil unrest in the northeastern part of the country, most economic indicators, including gross domestic product (GDP), non-traditional exports, international reserves, number of tourists and manufacturing productivity have improved. In addition, Sri Lanka's resource base includes rich agricultural, forest and natural resources, favorable climate and good access to major markets. The privatization program has been generally successful as indicated by the stock market's strong bull market, and an increase in output by private sector industry by 15% in 1989. During this same period the output of the public sector declined by 21%.

The A.I.D. Program: A.I.D.'s contributions to sustained development have been significant, helping provide a base for export-oriented, agro-industrial activities. Support to population, education and nutrition program has helped Sri Lanka achieve its very high "quality of life" profile. A.I.D. also has and continues to help with environmental protection and to provide leadership in strengthening private and voluntary agencies.

A.I.D.'s major focus today in accordance with its 1992-1996 "Strategic Framework" is to assist Sri Lanka to become a Newly Industrializing Country by 2001. To achieve this goal, the Sri Lankan Government's private investment-oriented policies must be further enhanced, privatization of public sector entities must continue, and the focus on agricultural development-led industrialization maintained.

A.I.D. is working with the Government to help establish a true market economy. Assistance to the Government's privatization plan and liberalization of the economy have been significant. A.I.D. has provided technical assistance to computerize the stock exchange. It has also acted to strengthen local Chambers of Commerce to assist them in framing policy discussions with the government in order to promote the country's liberalization program. The Mahaweli Agricultural and Rural Development Project is introducing the first modern fruit and vegetable cold chain and handling facility to Sri Lanka. The project is also testing the possibility of expanding or introducing 40 new agricultural products grown in Sri Lanka. The project also supports work to downsize agricultural bureaucracies and major privatization of agricultural schemes.

Other A.I.D. projects provide the base for export oriented agro industries. The Irrigation Systems Management project resulted in the first of its kind model agreement to turn over public

irrigation systems to private water user groups. The Mahaweli Environment Protection Project effected the reservation of 250,000 hectares for wildlife. Finally, a human Rights Center has been established at the University of Colombo under the Private Voluntary Agency Project.

Major Accomplishments: A major accomplishment of the A.I.D. program in Sri Lanka is the use of the stock market by the Government of Sri Lanka to privatize public companies. Use of the stock market provides a transparent means by which the Government has divested itself of public enterprises. Use of the stock market has also had the benefit of maximizing the profits of the sales to the Treasury. For example, 51% of the shares of Lanka Milk Food Limited were offered through the stock market. The stock price rose steadily from the minimum price of RS 19 to RS 34.50 during the last hour of trading. In another example, the state-owned distilleries was sold through the stock market for a record RS 10.5 billion (\$25 million) with shares going for four times the initial asking price.

The Government is pleased with the results of these two sales both in terms of increased revenue and decreased criticism. It plans to sell at least 20 additional enterprises through the stock market mechanism.

Project Example: Private Sector Policy Support: The Private Sector Policy Support Project supports development of capital markets, particularly the Colombo Stock Exchange and its regulatory body, the Securities and Exchange Commission. Long-Term Technical Assistance is provided to both bodies. The project funded the purchase of hardware and software to automate the stock exchange as well as long-term assistance to set up and maintain the system. The project also provides technical and grant assistance to Sri Lankan chambers of commerce and industry to assist the private sector to develop a strong, confident voice in its ongoing dialogue with the Government.

The completion date for this project was recently extended from 1993 to 1996 and the total amount of funding increased by \$7 million to \$22 million. The 1993 to 1996 extension of the project will; 1) further develop the capacity and confidence in the Sri Lankan Capital market to increase equity and debt participation and the country's capital investment base; 2) increase the supply of publicly traded securities; and 3) expand the portfolio of investment instruments and financial market segments to attract a wider range of investors and investment institutions. Technical assistance will continue to be the primary instrument used to achieve these goals.

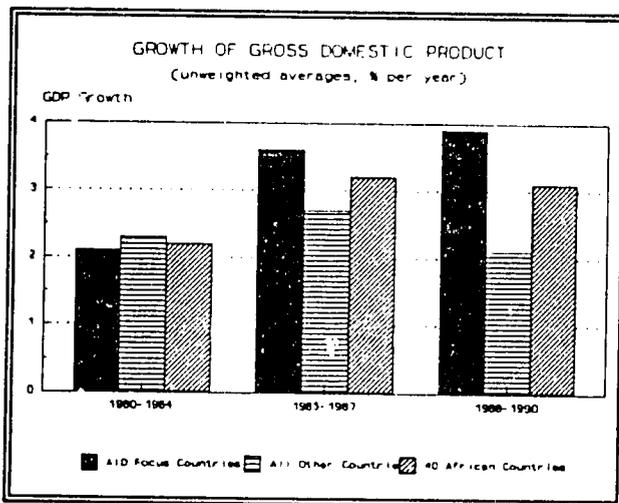
2. AFRICA: Positive Economic Developments in Sub-Saharan Africa

In the late 1980s, sub-Saharan Africa started to rebound economically. As economic growth went from modest levels in the late 1970s to disastrously low rates in the early 1980s, standards of living fell to levels not seen since independence. But from 1988 to 1990, rates of growth recovered to low but increasing levels, averaging 3.1% per year. While the recovery is fragile, there are hopeful signs of a more durable turnaround. In food security and the social sectors, too, there are some good reasons to question Afro-pessimism and to look forward to higher living standards for the majority of Africans.

A.I.D. focuses its assistance to Africa in 22 countries, which are generally those most committed to policy reform and where we are more likely to have a significant, positive impact on development. These "focus countries" have enjoyed stronger performance than other countries in sub-Saharan Africa, and our assistance is making meaningful contributions.

Stronger Economies¹

Economic growth in the A.I.D. focus countries has been significantly higher than elsewhere in sub-Saharan Africa (see graph below). During the 1988-90 period, they averaged 3.9%



growth per year, nearly double their 2.1% growth rate of the 1980-84 period. In the same period, the other countries' growth rate fell from 2.3% in 1980-84 to 2.1%. Also, growth in the focus countries has been more widespread, as the number growing at rates of at least 3% per year doubled over the decade, from 8 of 22 in the 1980-84 period to 16 of 22 during 1988-90. While three-fourths of the focus countries grew at rates exceeding 3.0% during 1988-90, only one-third of the other countries did so.

¹ African economic data are notoriously bad; they fail to capture the trends in informal, unrecorded activity and suffer from incomplete reporting of formal economic activity. If the measurement errors and omissions do not vary wildly from year to year, the trends reported here on the basis of the best available data indicate the beginnings of a turnaround in Africa with significantly better growth and export performance among A.I.D.'s focus countries. Nonetheless, the results should be interpreted with caution.

Policy Reform and Poverty

The issue of how structural adjustment policies affect the poor in Africa is one which concerns many working in African development, including A.I.D. In FY 1988, A.I.D. commissioned Cornell University to undertake a research project on the impact of policy reform on the poor in nine sub-Saharan countries. The work will be completed in 1993, but current findings show that the poor are either unaffected or benefit from adjustment programs in most countries. Adjustment programs, moreover, can help developing countries redirect resources towards productive purposes and make investments in human development. While adjustment has not generally hurt the poor, it has affected the material well-being of significant groups such as civil servants or workers laid off from state-owned companies who are vulnerable and need assistance to adapt to rapidly changing economic structures.

Several significant results from the nine country studies are:

- Government spending has not declined as a percentage of gross national product (GNP).
- Public expenditure on social services, generally, and health and education, in particular, were as likely to rise as to decline after adjustment; moreover, the share of budget resources allocated to the social sectors tended to increase following adjustment. Further analysis will examine resource allocations within the social sectors to confirm whether governments have increased spending for primary education, basic health care and other social services which focus on the poor.
- Prior to adjustment, public subsidies were not targeted to the poor, so elimination of subsidies largely affected administrative bureaucracies and the better-off classes. The poor were basically unaffected by cuts in subsidy programs.
- Africa's poor are primarily rural, derive a large share of their income from crops they produce and consume directly, and have diversified sources of income off-farm. Changes in prices of goods produced by the rural poor have improved their possibilities for increasing incomes as a result of adjustment, except for farmers producing commodities in which the world prices have fallen.
- Devaluations did not increase the price of food, which is the major budget item in poor households. As a result, the purchasing power of the poor did not fall during adjustment.
- The few country studies which permit conclusions about the real incomes of the poor show that these incomes were not affected by policy reform in several countries, give ambiguous results for Ghana, but show that real income of the poor did fall in Cote d'Ivoire.
- In general, the evidence from the nine country studies suggests that moving quickly to reform markets and institutions will not hurt the poor. However, it cannot be concluded that such reform will quickly benefit the poor.

The economic growth achieved by the focus countries has occurred despite a slackening of long-term lending, particularly private lending, and has only partly been due to growth in official development assistance. A major factor has been solid export growth. While African export performance cannot be compared to that of East Asia, it is nonetheless respectable among A.I.D.'s focus countries, improving from -0.2% annually in the 1980-84 period to 5.3% per year during 1988-90, and an impressive 8.6% in 1990 alone. This is much better than the export performance of the other countries, which rose from 0.9% annually during 1980-84 to only 2.5% in 1988-90. The growth performance in the focus countries is primarily attributable to the changes African governments have made in policies which affect the ability to export, such as freeing up foreign exchange markets and

reducing import barriers and red tape. Assuring that economic growth is broadly based was a continuing concern during the period of adjustment (see the attached box on Policy Reform and Poverty).

Economic performance in Africa would have been better were it not for its external debt burden, which remains a drag on development. Debt service payments in 1989 were \$8.8 billion. This represented about 60% of official development assistance. Confidence in African economies is weak among potential investors. Excluding Nigeria, which is in a unique position in Africa due to its oil revenue, long-term private lending continued to decline throughout the 1980s from a high of \$4.6 billion to sub-Saharan Africa in 1980 to only \$2.2 billion in 1989. In contrast, net official development assistance to sub-Saharan Africa (again excluding Nigeria) increased from \$7.4 billion in 1980 to \$13.5 billion in 1989.

Owing to more vigorous export growth, debt relief and improving economic management, A.I.D.'s focus countries perform better in servicing their debt than do other sub-Saharan countries. In fact, focus countries are meeting well over half of their payments while the others are struggling to pay just 40%.

Though A.I.D. is encouraged by the focus countries' improving economic performance, much needs to be done. First, about a third of the focus countries are not even achieving modest growth rates of 3%. Secondly, although focus country growth rates have averaged 3.9%, this is barely above the rate of population growth and not high enough to assure meaningful improvements in living standards for most Africans in this generation. African countries must increase their economic growth. Lastly, with declining terms of trade, widespread political and economic instability and uncertain climatic conditions, Africa's gains are too easily reversible. The progress we are helping to foster is fragile and we need to reinforce it.

3. NEAR EAST: Illustrative Country Program in Egypt

Background: Egypt plays a crucial moderating role in the Middle East. It has a population of about 54 million growing at 2.5%. It is also a poor country with a per capita income of only \$640. The literacy rate for males is 59% and 30% for females.

For nearly two decades, Egypt's centrally planned economy stimulated consumption and domestic investment through subsidized foreign exchange, domestic consumer goods and resources, including energy. The principal external sources of funds were oil exports, Suez Canal tolls, remittances from workers abroad and bilateral foreign assistance in the form of loans, credits, credit guarantees and grants. Egypt borrowed heavily during the

1970's and 1980's to finance consumption, infrastructure and military spending. By 1980, external debt stood at nearly \$21 billion, doubled by 1985 and peaked at \$55 billion in 1990.

To stabilize its macroeconomic situation, Egypt negotiated an 18 month standby with the IMF for the period April 1987-October 1988. By November 1987, the inadequacy of the Egyptian reform effort became clearly manifested in missed IMF performance targets and continued deterioration in key macroeconomic indicators. By mid-1990, Egypt and the IMF had not agreed on a revised program, although the economic situation continued to deteriorate. The Gulf Crisis of 1990 was an economic watershed for Egypt with some foreign exchange gains from oil but with losses on the tourism, worker remittances and some nontraditional exports side. Donors provided substantial levels of new external assistance and, led by the U.S., Egypt also received almost \$13 billion in debt forgiveness, of which \$6.7 billion was U.S. military debt. With the breathing room this assistance provided, in 1991 Egypt accelerated its reform program. On May 17, 1991 the IMF approved a stand-by covering the period ending November 20, 1992. Paris Club members agreed in May 1991 to reduce Egypt's bilateral debt by 50% of its present value over three years, conditioned on adherence with IMF program criteria. In July 1991, the World Bank approved a \$300 million policy-conditioned Structural Adjustment Loan for Egypt which was signed November 22, 1991.

The A.I.D. Program.

Over the past 17 years, the U.S. Government have provided about \$17 billion in economic assistance to Egypt. In FY 1992, \$815 million is being provided to support broad economic goals of the Egyptian Government and specific development programs to build a stronger economy and better life for the Egyptian people. Major program activities support economic policy reform and free market development by providing fast disbursing sector assistance, commodity financing and policy-based projects through:

1. Sector policy grants to encourage sectoral policy reforms which will result in a liberalized, market-oriented economy while providing needed foreign exchange for balance of payments support.
2. Commodity Import Program assistance, to the public and, mostly, to the private sector to finance U.S. imports needed to increase domestic production, maintain essential public services, and provide foreign exchange and short to medium-term credit to the private sector to import raw materials, intermediate goods and capital equipment from the U.S.
3. Infrastructure support to power generation and telephone service, clean water and improved sewerage disposal.

4. Assistance in development activities supporting training, agriculture, health and child survival, small business, etc.

Project Example: Sector Assistance Grant

These grants will support A.I.D.'s strategy to increase economic productivity and stimulate growth by supporting the removal of controls and restrictions on economic incentives and market forces. A.I.D. will provide to the Government of Egypt cash grants based on progress on agreed-upon sectoral policy performance. A.I.D. has supported such sector programs primarily in areas which would support the liberalization efforts pursued by the World Bank and in sectors where A.I.D.'s project experience has helped to identify a reform agenda. These areas include trade and exports, transportation and telecommunications, public finance and local government.

4. LATIN AMERICA: Illustrative Country Program - EL SALVADOR

BACKGROUND: The historic peace accords ending almost 12 years of civil strife were signed by the Government of El Salvador and the Farabundo Marti National Liberation Front (FMLN) under United Nations auspices in Mexico on January 16, 1992. The Government of El Salvador and the FMLN agreed to end the armed conflict, promote the democratization of the country, guaranty respect for human rights, and reunify Salvadoran society.

The March 23, 1992 World Bank-led Consultative Group on El Salvador focussed on support for El Salvador's plans to implement programs in the previously conflictive zones and initiatives growing out of the peace process. El Salvador estimated that \$1.5 billion will be required over five years to carry out national reconstruction and reconciliation activities. The Consultative group meeting was met with enthusiasm from many international donors. The Bank estimates that the 19 countries and 12 international organizations represented at the Consultative Group pledged a total of approximately \$800 million to support the first two years of the Salvadoran Plan.

ECONOMIC TRENDS: U.S. economic assistance helped brake the economic slide and supported policy reforms which restructured the economy toward more reliance on market forces and on the private sector. Economic reforms stimulated progress in the Salvadoran economy. After several years of slow growth, real GDP grew at a respectable 3.4% in 1990 and 3.5% in 1991, the highest rates achieved since 1978. El Salvador signed Stand-By Agreements with the IMF in August 1990 and January 1992, rescheduled its debt to the Paris Club in September 1990, and received a World Bank Structural Adjustment Loan in March 1991. Inflation from December 1990 to December 1991 was below 10%, down from 30% in 1989. Economic recovery, however, remains fragile.

Exports in 1991, \$621 million, were far below the 1979-80 average of \$1,104 million, especially in real terms. Private investment was 17.6% of GDP in 1978 before falling to 6.1% in 1980, and only recovered to 10.1% in 1991. Per capita GDP still is 25% below that of 1978. The current account deficit in 1991 was 5.5% of GDP and the fiscal deficit was 5.1% of GDP. World prices for its principal export, coffee, are extremely low.

AGRICULTURAL PRODUCTIVITY: Changes in economic policies are increasing the participation in agricultural production. Agrarian reform beneficiary rights and responsibilities law was recently passed. Individual land titles were issued numbering 45,000 between 1980 and 1990 and \$268 million in production credit was provided to the agrarian reform sector. Agricultural investment increased by 23% in 1990. In the first six months of 1991, agricultural production increased by 1.7 percent. Nontraditional agricultural exports increased 20% since 1985. Support to agriculture and industry generated over 51,000 jobs and promoted \$64 million in new investment.

THE A.I.D. PROGRAM: In accordance with the *Economic Assistance Strategy for Central America 1991 to 2000*, A.I.D. is pursuing four goals in El Salvador: 1) Economic and Social Stabilization; 2) Long-term Growth; 3) Spreading the Benefits of Growth; and 4) Strengthening Democratic Institutions. Specifically the priorities will emphasize: consolidation of the peace process, accelerating economic growth, strengthening democratic processes, provision of basic social services, and protection of the environment. Currently of utmost importance is international support of Salvador's national reconciliation and reconstruction efforts.

SUPPORTING ECONOMIC GROWTH: A.I.D. is working with the Government of El Salvador to encourage changes in Salvadoran economic policies to promote investment, employment, and outward oriented economic diversification.

A.I.D. is encouraging the Government of El Salvador to implement policy reforms to restructure the Salvadoran economy toward more reliance on market forces and on the private sector. Private sector investment increased by 17% in real terms in 1991 and the value of non-traditional agricultural exports also increased. Non-traditional agricultural exports to the United States increased from \$2.4 million in 1983 to \$7.5 million in 1991, a change from 2.5 percent to 4.8 percent of all non-traditional exports. Assistance was provided to small and microenterprises, with significant success in the area of entry level microenterprise through the village banking program. Over 160 village banks were established in six months benefitting 3,200 poor women with self-employment loans.

INCREASING ACCESS TO SOCIAL SERVICES: A.I.D. assists the Government of EL Salvador with the development of integrated rural primary health and child survival services, and improving the quality of education.

PRESERVATION AND SUSTAINABLE USE OF THE NATURAL RESOURCE BASE: A.I.D. is supporting the improvement of agricultural production and coastal zone management. Program objectives include: adding 120,000 additional hectares operating under improved environmental practices; adoption of a natural resources management plan by 1992; and stabilizing coastal zone regions by 1994. Implementation of a major environmentally oriented program will begin in El Salvador in May 1992.

SUPPORT FOR DEMOCRACY: A.I.D. is strengthening competent civilian government institutions and supporting the democratic governing process in El Salvador in areas such as the legislature, judiciary, and grass roots civic and community organizations. A judicial career law has been enacted, and a policy research unit is being established in the legislature. A public defender's office has been established. Pluralism is encouraged. A.I.D. supports free labor unions, Thomas Jefferson Peace Scholars, and the role of Private Voluntary Organizations (PVOs). A.I.D. has assisting the Government of El Salvador with introducing civic education into public school curriculum, and training 15,000 teachers and supervisors in methods that support democratic institutions. Also, union members numbering 3,500 were trained in such areas as collective bargaining, arbitration, negotiation, and trade union organization and management.

DRUG AWARENESS: A.I.D. is supporting drug awareness programs of a Salvadoran private voluntary organization.

RESETTLEMENT: A.I.D. has supported efforts to resettle people displaced by the civil war. Of the 400,000 people displaced by the war, only 128,000 remain displaced. Of these, almost 45,000 are being assisted through A.I.D. supported programs.

NATIONAL RECONSTRUCTION: El Salvador estimated that \$1.5 billion will be required over five years to carry out national reconstruction and reconciliation activities. The overall objective is to establish a basis for national reconciliation by creating the necessary economic and social conditions to reintegrate into society those persons most directly affected by the conflict as well as to strengthen the democratic process as called for in the Peace Accords. The government of El Salvador is confronting serious fiscal imbalances and a major portion of reconstruction will have to be provided from donor agencies.

The plan has three parts: 1) a \$1.1 billion National Reconstruction Plan (NRP), for which the government sought \$745.7 million in donor funding at the March 1992 Consultative Group

(CG) meeting; 2) a \$34 million Technical Assistance Program to accompany the NRP, donor funding for which also was sought at the CG; and 2) a \$392.8 million Democratic Strengthening Program, for which the GOES sought \$228.2 mil in donor funding at the CG.

While supporting El Salvador's longer term development needs, the USG proposes a \$250 million program to support the Government of El Salvador's initial request to initiate its National Reconstruction Plan. The program includes:

- **Immediate Conflictive Zone Relief** (\$4 million) Humanitarian relief/safety net assistance, documentation for repatriates and displaced persons, and public awareness regarding mines.
- **Assistance to Ex-combatants** (\$8 million) Social and economic reintegration counselling and university scholarships for ex-combatants from both sides.
- **Social and Economic Reactivation in the Formerly Conflictive Zones** (\$157 million) Support of grass-roots democracy through municipalities, restoration of health and education services, and productive enterprise development -- including investment promotion; agricultural and small and microenterprise credit programs; job placement assistance; and vocational and technical training.
- **Land Transfer** (\$15 million) Assistance for the purchase of land, titling and gaining membership to agricultural cooperatives.
- **Infrastructure Service Restoration** (\$56 million) Emergency repair programs, infrastructure reconstruction and restoration, and feasibility studies designed to accelerate other donor infrastructure financing.
- **Program Audit and Management** (\$10 million).

USAID/EL SALVADOR NEEDS FOR PVO INVOLVEMENT: USAID/El Salvador funds a wide range of collaborative PVO activities. In FY 1991, approximately one-half of all Development Assistance (DA) and Economic Support Funds were allocated to U.S. and local PVOs. Over the next several years, A.I.D. will continue to use U.S. PVOs in a number of activities, particularly in health, national reconstruction, assistance to displaced persons, environment and natural resource development, and democratic initiatives. Currently, USAID/El Salvador is particularly interested in communicating with U.S. PVOs that are interested in collaborating on a new Environmental and Natural Resource Program, as well as helping with the National Reconstruction Program.

APPENDIX

SELECTED FINANCIAL TABLES

Table: A – I.a
U.S. Official Commitments
(Millions of dollars)

Committed by Calendar Year

Program	1985	1986	1987	1988	1989	1990
Official Development Assistance: Gross.....	10,280	10,753	9,365	11,176	8,808	23,419
Bilateral.....	9,157	8,746	7,412	7,928	7,870	20,446
Foreign Assistance Act, including Social Progress Trust Fund.....	7,211	6,968	5,933	5,566	5,882	6,861
Agricultural Trade Development and Assistance Act. Long-term credit sales.....	1,486	1,272	1,176	1,639	987	1,321
Grants (including grantlike transactions).....	866	700	537	973	364	670
Peace Corps.....	620	572	639	666	623	651
Other, including multiple rescheduling +.....	125	127	130	159	157	170
Other, including multiple rescheduling +.....	335	379	173	564	844	12,094
Multilateral.....	1,122	2,007	1,953	3,247	937	2,973
Capital subscription payments.....	252	1,132	1,220	2,467	65	2,094
African Development Bank.....	18	15	20	9	7	19
African Development Fund.....	--	60	90	180	--	208
Asian Development Bank:						
Ordinary capital.....	--	11	13	15	--	--
Asian Development Fund.....	91	96	91	180	--	299
Inter-American Development Bank:						
Interregional capital.....	40	36	16	--	32	88
Fund for special operations.....	73	39	17	--	26	84
Inter-American Investment Corporation.....	--	--	13	13	--	13
International Bank for Reconstruction and Development	30	105	56	90	--	158
International Development Association.....	--	742	895	1910	--	961
International Finance Corporation.....	--	28	7	25	--	114
IMF Enhanced Structural Adjustment Facility.....	--	--	--	--	--	150
Multilateral Investment Guarantee Agency.....	--	--	--	44	--	--
Foreign Assistance Act.....	367	314	286	289	264	315
Agricultural Trade Development and Assistance Act...	156	183	105	136	161	122
Other.....	348	378	342	355	448	442
Other Official Flows: Gross.....	1,879	1,961	2,018	3,720	1,353	2,630
Export-Import Bank Act.....	698	473	659	708	646	624
Commodity Credit Corporation Charter Act.....	12	143	76	97	18	82
Other, including multiple rescheduling.....	1,169	1,344	1,283	2,914	689	1,924
Total Official Assistance: Gross.....	12,159	12,714	11,384	14,895	10,161	26,050

* Less than \$500,000.

+ Includes donations under section 416 of Agricultural Act of 1949, as amended in 1982, and grantlike transactions under the Commodity Credit Corporation Charter Act.

Source: Balance of Payments Division, BEA, U.S. Department of Commerce, from information made available by operating agencies.

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Table: A - I.b

**U.S. Official Disbursements
(Millions of dollars)**

Disbursed by Calendar Year

Program	1985	1986	1987	1988	1989	1990
Official Development Assistance: Gross.....	10,115	10,460	9,805	10,948	8,573	12,396
Bilateral.....	8,889	8,492	7,838	7,566	7,714	9,359
Foreign Assistance Act, including Social Progress Trust Fund.....	6,617	6,477	5,904	5,550	5,821	6,212
Agricultural Trade Development and Assistance Act:	1,782	1,458	1,433	1,389	1,293	1,251
Long-term credit sales.....	930	781	668	743	569	612
Grants (including grantlike transactions).....	852	677	764	646	724	639
Peace Corps.....	120	130	126	151	151	175
Other, including multiple rescheduling +.....	369	427	376	476	449	1,721
Multilateral.....	1,226	1,968	1,967	3,382	858	3,037
Capital subscription payments.....	252	1,132	1,220	2,467	65	2,094
African Development Bank.....	18	15	20	9	7	19
African Development Fund.....	--	60	90	180	--	208
Asian Development Bank:						
Ordinary capital.....	--	11	13	15	--	--
Asian Development Fund.....	91	96	91	180	--	299
Inter-American Development Bank:						
Interregional capital.....	40	36	16	--	32	88
Fund for special operations.....	73	39	17	--	26	84
Inter-American Investment Corporation.....	--	--	13	13	--	13
International Bank for Reconstruction and Development	30	105	56	90	--	158
International Development Association.....	--	742	895	1,910	--	961
International Finance Corporation.....	--	28	7	25	--	114
IMF Enhanced Structural Adjustment Facility.....	--	--	--	--	--	150
Multilateral Investment Guarantee Agency.....	--	--	--	44	--	--
Foreign Assistance Act.....	375	352	269	341	285	373
Agricultural Trade Development and Assistance Act...	211	187	127	134	158	148
Other.....	389	297	351	440	351	421
Other Official Flows: Gross.....	2,603	2,168	2,134	3,940	1,466	3,204
Export-Import Bank Act.....	1,022	399	387	384	460	681
Commodity Credit Corporation Charter Act.....	11	7	136	100	20	5
Other, including multiple rescheduling.....	1,571	1,763	1,612	3,457	987	2,518
Total Official Assistance: Gross.....	12,718	12,628	11,940	14,888	10,039	15,600

* Less than \$500,000.

+ Includes donations under section 416 of Agricultural Act of 1949, as amended in 1982, and grantlike transactions under the Commodity Credit Corporation Charter Act.

Source: Balance of Payments Division, Bureau of Economic Analysis, U.S. Department of Commerce, from information made available by operating agencies
October 22, 1991.

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Table: A -- II.a
U.S. Official Commitments: Type of transaction
(Millions of Dollars)

Type of transaction	Committed by Calendar Year					
	1985	1986	1987	1988	1989	1990
Official Development Assistance: Gross.....	10,280	10,753	9,365	11,176	8,808	23,419
Bilateral.....	9,157	8,746	7,412	7,928	7,870	20,446
Grants.....	7,900	7,695	6,486	6,685	7,418	19,678
(of which debt reorganization).....	--	--	--	--	(469)	(11,632)
Grantlike.....	97	47	160	133	87	93
Loans.....	1,160	1,004	766	1,111	366	675
(of which debt reorganization).....	(35)	(52)	(47)	(77)	(36)	(50)
Multilateral.....	1,122	2,007	1,953	3,247	937	2,973
Amortization received.....	****	****	****	****	****	****
Grant and grantlike recoveries.....	****	****	****	****	****	****
Official Development Assistance: net.....	****	****	****	****	****	****
Other Official Flows: Gross.....	1,879	1,961	2,018	3,720	1,353	2,630
Bilateral grants.....	--	150	--	--	--	--
Bilateral loans.....	1,854	1,785	1,987	3,684	1,318	2,600
(of which debt reorganization).....	(1,113)	(1,136)	(1,212)	(2,850)	(618)	(1,872)
Bilateral equity participation.....	25	26	32	36	36	30
Amortization received.....	****	****	****	****	****	****
Other Official Flows: Net.....	****	****	****	****	****	****
Total Official Assistance: Gross.....	12,159	12,714	11,384	14,895	10,161	26,050
Amortization received.....	****	****	****	****	****	****
Recoveries.....	****	****	****	****	****	****
Total Official Assistance: Net.....	****	****	****	****	****	****

Note: Data for calendar year 1987 in this table, and in the accompanying table by program, are revised from U.S. original submissions. Revisions include: 1) incorporation (into ODA grants) of newly available data on U.S. Government food aid disbursements; 2) incorporation (into net grants by private voluntary organizations) of estimates for the financing of education of foreign students by colleges, universities, private corporations, and other nonprofit organizations with funds from other than U.S. Government sources; and 3) incorporation (into OOF) of flows reflecting reorganization of credits extended to finance military supplies and services. These revisions are incorporated to provide comparability between data for 1987 and later years. Data for years prior to 1987 are not revised.

Source: Balance of Payments Division, Bureau of Economic Analysis, U.S. Department of Commerce, from information made available by operating agencies

October 22, 1991.

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Table: A – II.b
U.S. Official Disbursements: Type of transaction
(Millions of Dollars)

Type of transaction	Disbursed by Calendar Year					
	1985	1986	1987	1988	1989	1990
Official Development Assistance: Gross.....	10,115	10,460	9,805	10,948	8,573	12,396
Bilateral.....	8,889	8,492	7,838	7,566	7,714	9,359
Grants.....	7,324	7,055	6,763	6,455	6,733	8,504
(of which debt reorganization).....	--	--	--	--	--	(1,374)
Grantlike.....	82	163	155	99	117	91
Loans.....	1,483	1,274	921	1,012	864	765
(of which debt reorganization).....	(37)	(53)	(48)	(78)	(37)	(50)
Multilateral.....	1,226	1,968	1,967	3,382	858	3,037
Amortization received.....	616	711	606	725	838	936
Grant and grantlike recoveries.....	96	185	84	82	59	65
Official Development Assistance: net.....	9,403	9,564	9,115	10,141	7,676	11,395
Other Official Flows: Gross.....	2,603	2,168	2,134	3,940	1,466	3,204
Bilateral grants.....	--	150	--	--	--	--
Bilateral loans.....	2,177	1,586	1,687	3,483	999	2,733
(of which debt reorganization).....	(1,128)	(1,165)	(1,142)	(2,985)	(489)	(2,030)
Bilateral equity participation.....	426	432	447	457	467	471
Amortization received.....	2,425	2,727	3,944	2,034	1,963	3,654
Other Official Flows: Net.....	178	-559	-1,810	1,906	-496	-449
Total Official Assistance: Gross.....	12,718	12,628	11,940	14,888	10,039	15,600
Amortization received.....	3,041	3,439	4,550	2,758	2,800	4,590
Recoveries.....	96	185	84	82	59	65
Total Official Assistance: Net.....	9,581	9,005	7,306	12,047	7,180	10,946

Note: Data for calendar year 1987 in this table, and in the accompanying table by program, are revised from U.S. original submissions. Revisions include: 1) incorporation (into ODA grants) of newly available data on U.S. Government food aid disbursements; 2) incorporation (into net grants by private voluntary organizations) of estimates for the financing of education of foreign students by colleges, universities, private corporations, and other nonprofit organizations with funds from other than U.S. Government sources; and 3) incorporation (into OOF) of flows reflecting reorganization of credits extended to finance military supplies and services. These revisions are incorporated to provide comparability between data for 1987 and later years. Data for years prior to 1987 are not revised.

Source: Balance of Payments Division, Bureau of Economic Analysis, U.S. Department of Commerce, from information made available by operating agencies.

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Table: A - III

**Commitments of U.S. Official Programs
(Millions of dollars)**

Type of Transaction	Calendar Year 1989				Calendar Year 1990			
	ODA	OOF	Total	ODA grant element	ODA	OOF	Total	ODA grant element
Total.....	8,808	1,353	10,161	98.5%	23,419	2,630	26,050	99.0%
Excluding debt reorganization.....	8,302	735	9,038	98.5%	11,738	758	12,496	98.1%
Grants 1/.....	8,442	--	8,442	100.0%	22,744	--	22,744	100.0%
Excluding debt reorganization.....	7,973	--	7,973	100.0%	11,113	--	11,113	100.0%
Loans.....	368	1,318	1,683	62.6%	675	2,600	3,275	63.8%
Excluding debt reorganization.....	330	700	1,029	62.4%	625	728	1,353	63.6%
ODA.....	366	****	366	****	675	****	675	****
Excluding debt reorganization.....	330	****	330	****	625	****	625	****
OOF.....	****	1,318	1,318	****	****	2,600	2,600	****
Excluding debt reorganization.....	****	700	700	****	****	728	728	****
Equity participation.....	--	36	36	****	--	30	30	****
Grants as a percentage of total.....	95.8%	--	83.1%	****	97.1%	--	87.3%	****
Excluding debt reorganization.....	96.0%	--	88.2%	****	94.7%	--	88.9%	****

1. Includes grantlike transactions and capital subscriptions to multilateral institutions.

Source: Balance of Payments Division, Bureau of Economic Analysis, U.S. Department of Commerce.

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Table A - IV

U.S. Official Commitments: Average ODA Loan Terms

Type of loan	Calendar year 1989				Calendar year 1990			
	Grant element	Maturity (years)	Interval to first repayment (years)	Effective interest rate	Grant element	Maturity (years)	Interval to first repayment (years)	Effective interest rate
New ODA (bilateral and multilateral):								
FAA.....	47.3%	24.4	7.8	4.58%	38.4%	21.0	6.0	5.25%
ATDA.....	62.5%	35.6	8.9	2.78%	63.8%	37.0	9.4	2.70%
Total new ODA.....	62.4%	35.6	8.9	2.79%	63.6%	36.9	9.3	2.72%
Debt reorganization.....	64.6%	***	***	***	66.1%	***	***	***
Total ODA.....	62.6%	***	***	***	63.8%	***	***	***

Source: Balance of Payments Division, Bureau of Economic Analysis, U.S. Department of Commerce.
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Table A - V

Structure of U.S. Official and Private Flows: Net disbursements

(Millions of Dollars)

Type of transaction 1/	1989		1990	
	Amount	Percent	Amount	Percent
Total official and private flows (I + II + III + IV).....	16,382	100%	11,095	100%
Total official flows (I + II).....	7,180	44%	10,946	99%
I. Official development assistance (ODA).....	7,676	47%	11,395	103%
Bilateral grants and grantlike flows....	6,791	41%	8,530	77%
Bilateral loans.....	36	0%	-163	-1%
Multilateral 2/.....	850	5%	3,028	27%
II. Other official flows (OOF).....	-496	-3%	-449	-4%
Total private flows (III + IV).....	9,202	56%	149	1%
III. Private flows at market terms.....	7,325	45%	-2,356	-21%
Direct Investment 3/.....	7,075	43%	7,788	70%
Multilateral portfolio.....	-458	-3%	1,077	10%
Other long-term assets, including export and trade credits.....	708	4%	-11,221	-101%
IV. Grants by voluntary agencies.....	1,877	11%	2,505	23%

1. For details see DAC questionnaire, table 1.

2. Capital subscription payments to multilateral development banks are based on an issuance basis

3. Includes net new direct investment and reinvested earnings.

Source: Balance of Payments Division, Bureau of Economic Analysis, U.S. Department of Commerce.

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Table: A - VI

Summary of U.S. Official and Private Flows: Net Disbursements

(Millions of dollars)

Type of Transaction 1/	Calendar year		Annual change
	1989	1990	
Total official and private flows (I + II + III + IV).....	16,382	11,095	-32%
Total official flows (I + II).....	7,180	10,946	52%
I. Official development assistance (ODA).....	7,676	11,395	48%
II. Other official flows.....	-496	-449	9%
Total private flows (III + IV).....	9,202	149	-98%
III. Private flows at market terms 2/.....	7,325	-2,356	-132%
IV. Grants by voluntary agencies.....	1,877	2,505	33%
***** Memo Item *****			
U.S. Gross National Product 3/ (billions of dollars)...	5,176	5,441	5%
Percent of flows to U.S. GNP:			
Total flows: Official and private.....	.32%	.20%	***
ODA flows.....	.15%	.21%	***

1. For details see DAC questionnaire, table 1.
2. Includes net new direct investment and reinvested earnings, multilateral portfolio investment, and export and trade credits.
3. GNP is standardized System of National Accounts (SNA) data most recently submitted to the OECD.

Source: Balance of Payments Division, Bureau of Economic Analysis, U.S. Department of Commerce.

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