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Report to the Chairman, Subcommittee on Foreign Operations, Export Financing, and Related Programs, Committee on Appropriations, House of Representatives

April 1991

FOREIGN ASSISTANCE

Progress in Implementing the Development Fund for Africa

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RELEASED

GAO United States
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National Security and
International Affairs Division

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April 16, 1991

The Honorable David R. Obey
Chairman, Subcommittee on Foreign Operations,
Export Financing, and Related Programs
Committee on Appropriations
House of Representatives

Dear Mr. Chairman:

This report addresses the efforts of the Agency for International Development to implement the Development Fund for Africa. This report should be useful to your Subcommittee in evaluating the Development Fund for Africa and in considering future foreign assistance legislation.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days after its issue date. At that time, we will send copies to the Chairmen, House Committee on Foreign Affairs; Senate Committee on Foreign Relations; Senate Committee on Appropriations, Subcommittee on Foreign Operations; the Secretary of State; the Administrator, Agency for International Development; and other interested parties upon request.

This report was prepared under the direction of Harold J. Johnson, Director, Foreign Economic Assistance Issues who may be reached on (202) 275-5790 if you or your staff have any questions. Other major contributors to this report are listed in appendix III.

Sincerely yours,

Frank C Conahan

Frank C. Conahan
Assistant Comptroller General

Executive Summary

Purpose

Despite billions of dollars of U.S. and other donor assistance, economic conditions in Sub-Saharan Africa declined severely in the 1980s. This situation prompted the Congress to create the Development Fund for Africa, which is administered by the Agency for International Development (AID). The Fund was created in December 1987 to provide more stability in U.S. development assistance funding, new policy directions, increased administrative flexibility in delivering assistance, and more effective measurement of the impact of assistance.

To assess the Fund's initial performance, the Chairman, Subcommittee on Foreign Operations, Export Financing, and Related Programs, House Committee on Appropriations, requested that GAO review the Fund. GAO's objectives were to determine whether

- the Fund has provided a stable source of development assistance funding for Africa,
- AID has implemented the Fund according to the congressional policy guidance,
- administrative changes associated with the Fund have improved AID's ability to deliver development assistance, and
- AID's evaluation planning will measure the Fund's impact on African development.

Background

In creating the Fund, the Congress emphasized certain policies intended to increase the impact of development assistance for Africa. These include (1) assuring stability of funding; (2) concentrating resources in countries that have demonstrated a willingness to undertake policy reforms; (3) focusing on critical sectors within those countries; (4) combining non-project and project assistance; (5) integrating food aid with the Fund; (6) addressing the social and environmental effects of development; and (7) cooperating with host governments, other bilateral and multilateral donors, and nongovernmental organizations involved in development assistance.

The Fund also gave AID greater flexibility in carrying out its work in Africa. For example, Fund procurements were exempted from the "buy American" rules to improve the speed and appropriateness of AID procurements in Africa, and funds were not appropriated to functional accounts (such as agriculture or health) to provide AID more leeway in planning and implementing development assistance projects.

Results in Brief

The Fund has provided a stable source of development assistance funding for Sub-Saharan Africa and, in fact, development assistance has increased in absolute terms and relative to other regions. However, increases in development assistance funding did not offset decreases in other types of economic assistance, such as economic support funds and food aid. As a result, total U.S. economic assistance to this region was lower in fiscal year 1990 than in fiscal year 1987.

Consistent with congressional guidance, AID has, among other things, concentrated Fund resources in those African countries that have demonstrated a willingness to undertake economic policy reforms. Within those countries, AID has concentrated resources in specific sectors.

AID missions had not taken full advantage of the flexibility offered by the exemption from "buy American" procurement rules because AID's guidance to the African missions was restrictive. Emphasis was still on the procurement source rather than on whether program objectives would be most effectively met. However, AID had taken advantage of the flexibility provided by the Congress by not tying the Fund to functional accounts. This flexibility permitted AID to improve operations by allowing it to more easily reprogram funds and pursue cross-sectoral projects.

While economic development is a long-term process subject to many influences, AID had not adequately described appropriate evaluation approaches and techniques for missions to use in analyzing relevant baseline and monitoring data. Also, AID had not described adequately in its guidance how to measure the Fund's impact or include a focus on evaluating the host country's ability to sustain the program or project impact after outside funding terminates.

Principal Findings

Stability of Funding

Bilateral development assistance to Africa increased from $394.5 million in fiscal year 1987 (before the Fund) to $573.3 million by fiscal year 1990, the 3rd year of the Fund. Africa's relative share of the U.S. world-wide development assistance budget also increased from 31.3 percent in fiscal year 1987 to 43.1 percent by fiscal year 1990. However, while development assistance to Africa increased, other economic assistance, such as economic support funds and food aid declined, resulting in a lower level of economic assistance in fiscal year 1990 than in any of the preceding 8 years. Department of State and AID officials attribute this decline to changing U.S. priorities worldwide. Also, total U.S. bilateral economic assistance declined during this period.

Implementation Consistent With Congressional Guidance

GAO found that, consistent with congressional guidance, AID has concentrated Fund resources in a fewer number of African countries. The share of U.S. development assistance funds for the 23 African countries where AID has been concentrating its efforts grew from 67 percent in fiscal year 1987 to 86 percent in fiscal year 1990. Also, within these 23 countries, Fund resources are being concentrated into fewer sectors and projects. AID had 308 development projects underway in Africa in fiscal year 1987. Although funding had increased, the number of projects active in fiscal year 1990 had decreased to 263. AID missions in countries GAO visited were (1) combining non-project and project assistance to encourage policy reforms; (2) designing programs to address social and environmental concerns; (3) integrating food aid with the Fund to increase the mission's overall effectiveness; and (4) working cooperatively with host governments, other bilateral and multilateral donors, and nongovernmental organizations in designing and implementing projects.

Administrative Flexibility

AID headquarters and field officials GAO interviewed generally believed that AID had not taken full advantage of procurement rule changes permitted by the Fund and intended to improve the timeliness and appropriateness of procurement actions. According to AID field officials, AID's guidance on the legislative exemption from the "buy American" rule was restrictive and did not provide the flexibility intended. AID's guidance states that the exemption should be used sparingly and that there should be no noticeable decrease in the relative share of procurements from U.S. sources. AID field officials stated that emphasis is still given to the source of the items being procured rather than to whether program objectives will be most effectively met. Consequently, very little has changed as a result of the legislative exemption.

GAO found that the absence of functional accounts for Fund activities has facilitated needs-based planning. Missions now have significantly more flexibility to (1) consider a country's specific development needs, undistorted by funding levels in separate functional accounts; (2) pursue cross-sectoral projects that address a variety of development needs; and (3) shift or reprogram funds as needed to address changing circumstances in developing countries. Missions GAO visited have used this flexibility to more efficiently and effectively use program funds.

AID's Evaluation Planning

To measure the impact of the Fund, AID has provided its missions guidance for monitoring, evaluating, and reporting on their progress. GAO found that AID's guidance does not describe adequately how to measure the Fund's impact or include a focus on whether Fund projects will be sustainable in the long run. Measuring impact and attributing it to the Fund will be difficult because economic development is a long-term process subject to many influences, but the process is nonetheless important to assess the relative success of this program.

Recommendations

GAO recommends that the Administrator of AID

- evaluate the Fund procurements to date to determine whether AID's "buy American" guidance was indeed too restrictive and, if necessary, make appropriate revisions to the Fund procurement guidance to take greater advantage of the procurement flexibility the Congress provided and
- provide missions in Africa with additional guidance for measuring the impact of the Fund by (1) describing appropriate approaches or techniques for missions to use in analyzing baseline and monitoring data and (2) addressing issues missions should consider in evaluating the sustainability of the Fund program and project impacts.

Agency Comments

GAO did not obtain written agency comments on this report. However, its contents were discussed with AID officials and their comments have been incorporated in the report where appropriate.

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AID	Agency for International Development
DFA	Development Fund for Africa
GAO	General Accounting Office

Introduction

African Economic Development Regressed in the 1980s

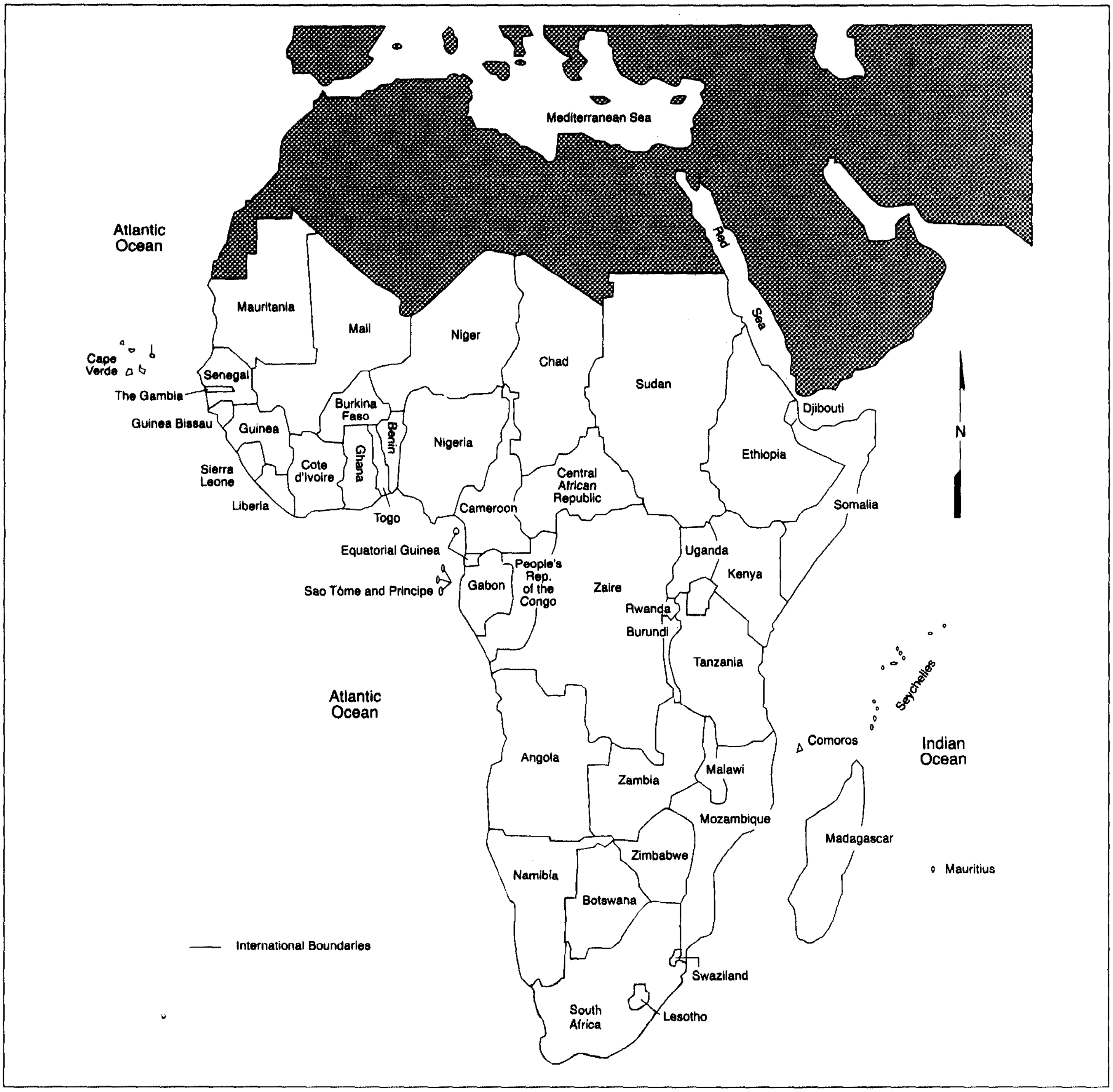
Throughout the 1980s, economic development in Africa[1] suffered severe setbacks. Per-capita income declined in some countries by more than 25 percent. In fact, 13 of the region's countries—representing one-third of its population—had lower per-capita incomes in 1989 than they had at independence in the 1960s.

The problems of African countries in the 1980s were caused by a variety of external and internal factors. An important external factor was a decline in export earnings. In the 1980s, the prices of Africa's main exports plummeted. Several countries, dependent on selling only a few key products, were unable to switch to other exports. This situation led to major reductions in commercial loans to African countries, but large increases in official bilateral and multilateral loans left most of the region's countries with major debt problems. According to the World Bank,[2] commercial capital flows to the region declined quickly from $8 billion in 1983 to less than $1 billion in 1985. Noncommercial capital flows—loans from bilateral and multilateral donor organizations—increased to record levels in the 1980s. The debt burden reached crisis proportions in more than half of the region's countries. During 1980 through 1988, 25 African countries had to reschedule their debts with creditors a total of 105 times, and overall, Africa's debt grew faster than that of any other developing region. With Africa's debt at 100 percent of gross national product and more than 350 percent of export earnings, the region was more indebted than any other part of the world in 1989. (See fig. 1.1 for a map of the African countries).

[1] In this report, the term "Africa" refers to the 47 countries south of the Saharan Desert. In 1985, these countries accounted for approximately 85 percent of the African continent's people.

[2] World Bank, Sub-Saharan Africa: Form Crisis to Sustainable Growth (November 1989) and United Nations Development Program, Africa's Adjustment and Growth in the 1980s (March 1989). Generally, the statistics and other information presented in this section are excerpts from these studies.

Figure 1.1: Countries South of the Saharan Desert



Economic problems in African countries were also caused by internal factors, including poor economic policies. That is, African governments pursued economic policies that hindered growth, such as currency restrictions, price controls, trade barriers, budget deficits, and a high level of state control over the economy. Both African governments and the international donor community have acknowledged the negative effects of such policies on the economies of African countries.

These economic problems in the 1980s were exacerbated by natural disasters and civil strife. Many parts of Africa endured several droughts and subsequent famines in the 1980s. Locust plagues also contributed to famine in parts of Africa. In addition, several African countries were embroiled in civil wars.

As a result of these problems, Africa remains one of the poorest areas of the world, with hunger and malnutrition prevalent throughout the region. The agriculture sector, which accounts for most of Africa's economic activity, continued to decline, and per-capita food production continued to fall in the 1980s as it had in the 1970s. According to World Bank estimates, 25 percent of Africa's population faces chronic food shortages.

Health conditions in Africa remain among the worst in the world. African countries have the highest infant mortality rates in the world. In the poorest African countries about 25 percent of all children die before the age of 5. According to one 1985 estimate, only 65 percent of urban and 26 percent of rural residents had access to safe drinking water. In 1987, life expectancy in African countries was the lowest in the world—49 years for males and 53 years for females.

Africa's situation is further exacerbated by rapid population growth. The population growth rate, perpetuated by a variety of social and economic reasons, is the highest in the world, with very few prospects of reductions in the medium term. According to a World Bank study,[3] the population of Africa, if uncontrolled, will triple by the year 2025. Population growth aggravates the growing unemployment prevailing in Africa's depressed economies. The high rates of population growth require that Africa's economies and social services progress rapidly just for living standards to remain at current low levels. Otherwise, the educational and health care systems will become increasingly overburdened

[3]World Bank, Poverty, Adjustment, and Growth in Africa (April 1989).

as slums expand, health deteriorates, illiteracy and malnutrition increase, and a culture of poverty is perpetuated.

The Development Fund for Africa Created to Address Africa's Problems

The deteriorating economic and social conditions in Africa undermined development assistance activities of the United States and other donors. In addition, these conditions occurred when the federal budget crisis threatened to reduce U.S. assistance to Africa. These factors, and the desire to increase the flexibility of U.S. assistance, prompted the administration and the Congress to create a special appropriation for development assistance.[4] This appropriation was placed in a special account called the Development Fund for Africa (DFA), which is administered by the Agency for International Development (AID). DFA became effective with enactment of the omnibus fiscal year 1988 joint resolution (P.L. 100-202, dated Dec. 22, 1987).

DFA legislation established a separate $500 million appropriation for development assistance for Africa. According to the conference committee report (H. Rept. 100-498 at 817), this appropriation was needed to provide "an assured and stable source of funding for Africa."

DFA legislation specified a variety of policies that AID should pursue to promote "long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant." These policies emphasized (1) concentrating DFA resources in selected African countries that had demonstrated a willingness to undertake economic policy reforms or basic structural adjustments; (2) focusing on critical sectors within those countries; (3) encouraging host government policy reforms while continuing to provide project assistance; (4) addressing the social and environmental effects of development; (5) integrating food aid with development assistance; and (6) cooperating with host government agencies, bilateral and multilateral donors, and nongovernmental organizations involved in development assistance.

DFA legislation also included two administrative provisions designed to provide AID additional flexibility in carrying out its work in Africa. According to the Subcommittee on Africa, House Committee on Foreign Affairs, the "buy American" procurement rules were impairing the timeliness and appropriateness of AID procurements for projects in

[4]Development assistance is one of three major types of foreign economic assistance provided to Africa by the United States. The other two types—economic support funds and food aid—are discussed later in this report.

Africa. In addition, funds were not appropriated to functional accounts (such as agriculture or health) to provide AID more flexibility in planning and implementing development assistance projects.

Another important aspect of DFA is impact evaluation. Given the new policy directions and increased flexibility for AID, the Congress expects that DFA will have a positive, measurable, impact in Africa. AID headquarters' guidance to missions in Africa has emphasized the importance of evaluating the impact of DFA.

Objectives, Scope, and Methodology

The Chairman, Subcommittee on Foreign Operations, Export Financing, and Related Programs, House Committee on Appropriations requested that we review DFA. Our objectives were to determine whether

- DFA has provided a stable source of funding for Africa,
- AID has implemented DFA consistent with congressional policy guidance,
- administrative changes associated with DFA have improved AID's ability to deliver development assistance efficiently, and
- AID is effectively planning evaluations to measure the impact of DFA on African development.

We performed our review at all organizational levels of AID—headquarters, regional offices, and selected missions. At headquarters, we visited the Africa Bureau and the Program and Policy Coordination Bureau. In Africa, we visited AID's two Regional Economic Development Services Offices—the office in Nairobi, Kenya (which serves east and southern Africa) and the office in Abidjan, Cote d'Ivoire (which serves west and central Africa). In addition to providing administrative and technical support for all missions in Africa, the regional offices serve as country missions for smaller countries. The regional office in Nairobi directs activities in four countries (Comoros, Djibouti, Mauritius, and Seychelles). The regional office in Abidjan directs activities in two countries (Cote d'Ivoire and Sao Tome/Principe) and provides assistance and liaison services to the African Development Bank.

We also visited AID missions in Kenya, Malawi, and Senegal. We selected these because they were 3 of 23 priority missions for AID's implementation of DFA. In addition, these missions received relatively high levels of DFA funding and represented different regions of Africa. Also, AID headquarters officials stated that these missions have large and stable programs.

To determine whether DFA has provided a stable source of funding for Africa, we reviewed AID funding levels both before and after DFA. We included all sources of U.S. bilateral economic assistance as part of this review. We analyzed trends in funding levels and compared funding for Africa to other regions where AID provides foreign economic assistance. We also interviewed Africa Bureau officials at both AID and the State Department to get their opinions on the effect of DFA on funding for Africa.

To determine whether AID was implementing DFA consistent with congressional policy guidance, we reviewed the DFA Action Plan[6] (AID's guidance) and the missions' country development strategies and project documents. We also had extensive discussions with responsible AID officials at headquarters and field offices.

In reviewing AID's efforts to concentrate resources on selected countries, we reviewed AID's categorization of African countries and how much DFA funds have been concentrated in those countries. We also interviewed State Department officials who have overall responsibility for coordinating U.S. foreign policy and who consult with AID in selecting countries to receive U.S. assistance. In addition, we analyzed trends in the overall number of development projects and their average costs in Africa.

To determine whether missions are integrating DFA with food aid, we reviewed plans to implement food aid programs and compared these to the missions' country development strategies and documents for individual AID projects. We also interviewed Department of Agriculture officials, who share some responsibilities with AID in the management of food aid.

To evaluate the extent of AID's cooperation with host governments, other bilateral and multilateral donors, and nongovernmental organizations, we interviewed field-level officials from a wide variety of organizations in Washington, D.C., Kenya, Malawi, Senegal, and Cote d'Ivoire. During these meetings, we discussed a wide range of DFA issues, but made particular inquiries regarding the degree that AID coordinated its efforts with these organizations. We also obtained copies of their country strategies and compared them with AID's country strategies.

[6] AID, U.S. Assistance for Africa - The Development Fund for Africa (DFA) - An Action Plan, May 1989.

To evaluate the changes in AID's procurement procedures, we reviewed AID headquarter's legal memorandums, procurement handbooks, cables, and fiscal year 1989 statistics on procurement in Africa. We also discussed the procurement change with responsible officials at headquarters, regional offices and selected missions, and compared AID's guidance with legislative intent as reflected in the Conference Committee report on DFA.

To evaluate what effect the absence of functional accounts had on program effectiveness, we discussed this change with AID headquarters officials involved in budgeting and programming. At selected missions, we discussed this change with AID field officials and reviewed budget cables and project documents in cases where the mission had applied the flexibility offered by this change.

To assess AID's efforts to evaluate DFA, we reviewed AID's Evaluation Handbook, the Africa Bureau's supplement to that handbook, and the Africa Bureau's cables to missions. We also discussed this issue with AID evaluation experts in the Africa Bureau and the Program and Policy Coordination Bureau's Center for Development Information and Evaluation. We compared AID's DFA evaluation strategies to generally accepted techniques for evaluating development programs.

We reviewed DFA during fiscal year 1990—DFA's 2nd full year of implementation. Given the time required to plan and implement development projects, many of the projects we studied were in the planning or early implementation phase. As a result, we generally did not visit project sites to independently evaluate their progress.

Also, we did not review AID's Southern Africa Regional Program, which supports the efforts of countries seeking economic independence from the Republic of South Africa. Starting in fiscal year 1990, DFA included $50 million in funding for this program. We did not review this program because it predates the DFA, and its objectives and development strategies are significantly different.

We conducted our review between January and September 1990 in accordance with generally accepted government auditing standards.

We did not obtain written agency comments on this report; however, we discussed its contents with AID officials and have incorporated their comments where appropriate.

DFA Has Provided a Stable Source of Development Assistance, but Other Economic Assistance Has Declined

DFA has assured a stable source of development assistance funding for Africa. Since its creation in 1987, development assistance to Africa and Africa's share of the total development assistance budget have increased. However, development assistance is only one component of the U.S. bilateral economic assistance program. Other components, such as the economic support funds and food aid, declined for African countries, and total U.S. bilateral economic assistance to Africa was slightly lower in fiscal year 1990 than in fiscal year 1987 and considerably lower than fiscal year 1985. The reduction in economic assistance to Sub-Saharan Africa reflects the overall reductions in U.S. bilateral economic assistance during this period, but AID and State Department officials also cited changing U.S. priorities as a reason for the reduction in bilateral economic assistance to Africa.

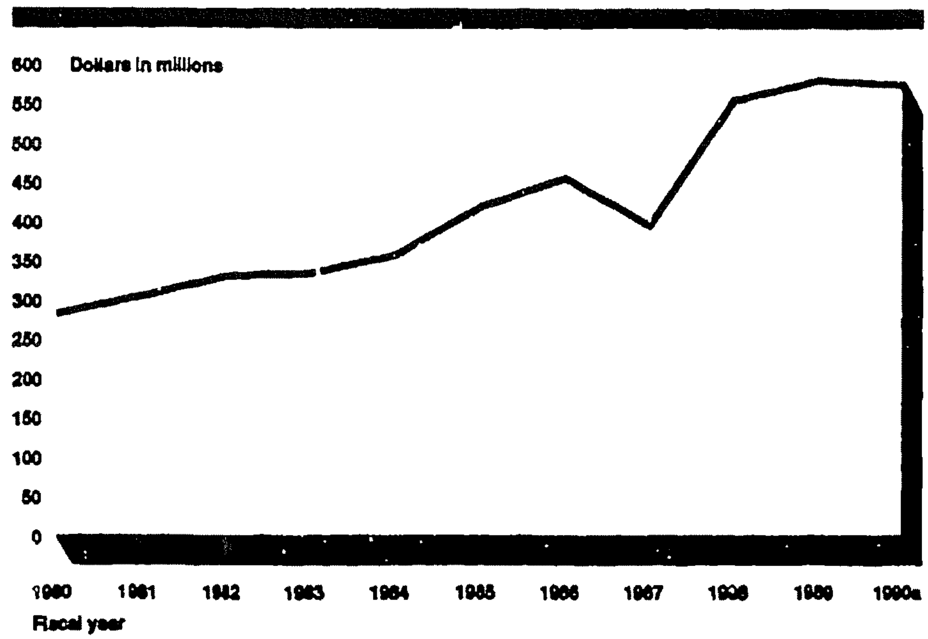
DFA Met Objective to Increase Development Assistance to Africa

DFA initially raised the level of development assistance for Africa from $395 million in fiscal year 1987—before DFA was created—to $554 million in fiscal year 1988.[1] Since that initial increase, the DFA funding level remained stable at about $550 million through fiscal year 1990. Africa's development assistance funding, both before and after DFA, is shown in figure 2.1.[2]

[1] DFA actual obligations since fiscal year 1988 include approximately $50 million annually for AID's Southern Africa Regional Program, which primarily consists of development assistance. In fiscal year 1990, the program was added to the DFA funding account.

[2] For fiscal year 1991, the Congress appropriated $800 million in development assistance for Africa, an increase of $235 million over the fiscal year 1990 funding level.

Figure 2.1: Actual Obligations of Development Assistance for Africa



[a]Fiscal year 1990 figures are estimates.
Source: AID Congressional Presentations.

In addition to the increases, development assistance funding for Africa grew relative to other regions, as shown in table 2.1. DFA has increased Africa's percentage of the total development assistance budget from 31.3 percent in fiscal year 1987 (before DFA) to 40.8, 41.0, and 43.1 percent in fiscal years 1988, 1989, and 1990, respectively. AID and State Department officials stated that DFA's separate account in the foreign assistance budget protected Africa's development assistance from cuts or shifts to other regions.

Table 2.1: Actual Obligations of Development Assistance for Africa and Other Regions

Dollars in millions

Fiscal year	Africa	Latin America and the Caribbean	Asia, Near East, and Europe	Total	Africa's percent of total
1981	$304.9	$233.3	$458.3	$996.6	30.6
1982	330.1	280.9	439.7	1,050.6	31.4
1983	333.7	328.9	435.9	1,098.6	30.4
1984	356.7	295.3	443.9	1,095.8	32.6
1985	418.5	507.4	493.9	1,419.7	29.5
1986	454.9	461.5	442.1	1,358.5	33.5
1987	394.5	436.8	427.9	1,259.2	31.3
1988	553.8	415.9	388.6	1,358.3	40.8
1989	578.4	414.7	416.5	1,409.6	41.0
1990[a]	573.3	349.3	406.9	1,329.6	43.1

[a]Fiscal year 1990 figures are AID estimates.

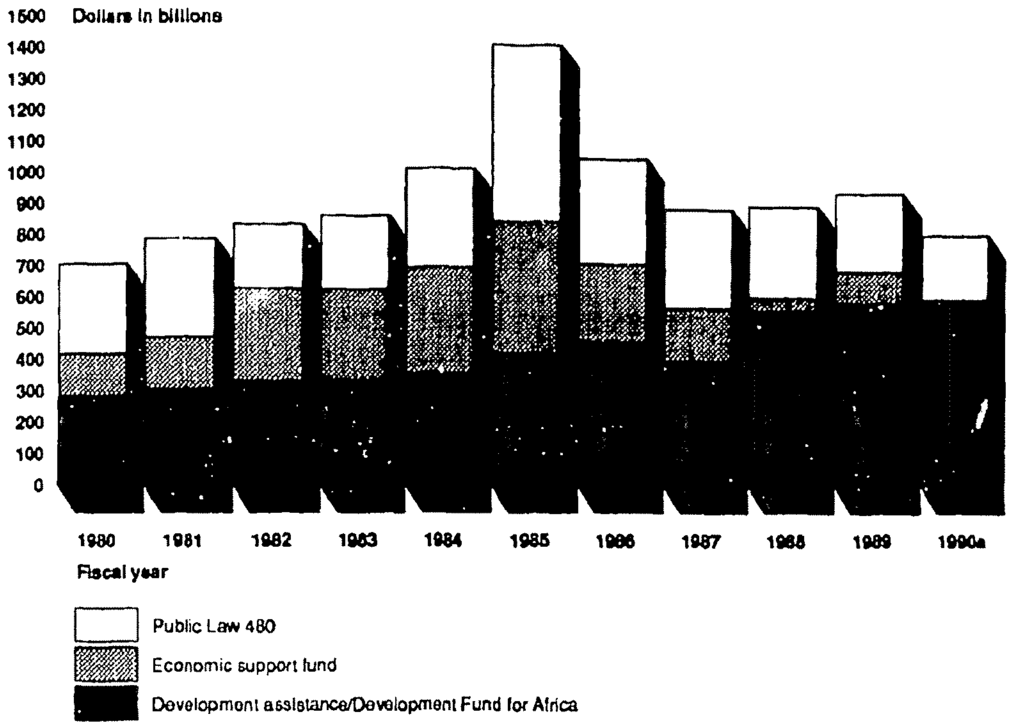
Source: AID Congressional Presentations.

Other U.S. Economic Assistance to Africa Has Declined

In addition to development assistance, AID's other major foreign economic assistance programs are food aid and the economic support fund. Food aid is provided to countries to combat hunger and malnutrition, encourage economic development, expand export markets for U.S. agricultural products, and promote U.S. foreign policy objectives. The economic support fund is intended to promote economic and political stability in regions where the United States has special security interests. These funds are used both for balance of payments support to host governments and for development programs.

We found that for Africa, the economic support fund and food aid have declined more rapidly than DFA's development assistance has increased, leaving Africa with a net decrease in total annual bilateral assistance since the adoption of DFA. (See fig. 2.2.)

Figure 2.2: Actual Obligations of Development Assistance, Economic Support Funds, and Food Aid for Africa



[a]Fiscal year 1990 figures are estimates
Source: AID Congressional Presentations.

Figure 2.2 also shows that total U.S. bilateral economic aid for Africa peaked in fiscal year 1985 at $1.4 billion. By fiscal year 1987, bilateral aid had fallen to $876 million. The first 2 fiscal years of DFA (1988 and 1989) total bilateral aid for Africa increased to $886 million and $927 million, respectively. However, for fiscal year 1990 bilateral aid to Africa had dropped to $793 million—or 57 percent of its fiscal year 1985 levels.

AID officials stated that the increase in development assistance to Africa under DFA was meant to replace a substantial portion of the economic support fund to that region. One official stated that approximately 40 percent of the original DFA budget in fiscal year 1988 was comprised of former economic support fund programs. For example, development activities, such as AID's Africa Economic Policy Reform Program, formerly funded with the economic support fund is now funded by DFA.

However, AID and State Department officials stated that DFA was intended to replace only a portion of other assistance and was not intended to totally replace the economic support fund to African countries. Several countries such as Chad, Namibia, and Kenya, which receive development assistance under DFA, still receive some economic support funds.

Total U.S. bilateral economic assistance to Africa has also declined relative to other regions. (See table 2.2.) While Africa's share of total bilateral economic assistance increased from 13.8 to 15.8 percent in the 1st year of DFA, the percentage has declined to 12.5 percent in fiscal year 1990. AID officials cited shifting U.S. priorities for the reduction in economic assistance for Africa. State Department and AID officials stated that the reductions were the result of some African countries declining in strategic and political significance to the United States and that priorities within the foreign aid budget have shifted due to changing political events in other regions or countries, such as Eastern Europe and Central America, where U.S. attention and resources have been directed.

Table 2.2: U.S. Bilateral Economic Assistance for Africa and Other Regions

Dollars in millions

Fiscal year	Africa	Latin America and the Caribbean	Asia, Near East, and Europe	Total	Africa's share of total
1981	$ 784.0	$549.6	$3,260.4	$4,594.0	17.1
1982	829.8	796.2	3,378.7	5,004.7	16.6
1983	856.6	1,098.9	3,351.8	5,307.3	16.1
1984	1,007.2	1,017.5	3,572.5	5,597.2	18.0
1985	1,401.6	1,810.4	5,124.1	8,336.1	16.8
1986	1,037.1	1,318.5	5,182.9	7,601.5	13.6
1987	876.1	1,498.9	3,978.7	6,353.7	13.8
1988	886.8	1,141.9	3,574.5	5,603.2	15.8
1989	927.4	1,142.6	3,963.5	6,033.5	15.4
1990[a]	793.6	1,579.6	3,959.2	6,332.4	12.5

[a]The fiscal year 1990 figures are estimates.

Source: AID Congressional Presentations.

Conclusion

The congressional objective of assuring a stable source of development assistance funding has so far been met. However, both the economic support fund and food aid, the other major components of economic assistance, declined for Africa from fiscal years 1985 through 1990.

This reflects reductions in the overall level of U.S. bilateral economic assistance funding during this period. The net effect of these changes, however, is that total bilateral economic assistance to Africa has declined in absolute amounts, and also relative to other regions. AID and State Department officials attributed the decline in Africa's funding levels relative to other regions to budget shifts brought about by changing political events in other parts of the world.

Chapter 3

Implementation of DFA Is Consistent With Congressional Guidance

In creating DFA, the Congress emphasized certain policies intended to increase the impact of development assistance in Africa. These policies included concentrating resources in countries with growth potential and governments receptive to reforms; focusing on critical sectors within a country; combining non-project assistance[1] with project assistance to promote sector development; considering the social and environmental effects of development; integrating DFA with U.S. food aid; and working cooperatively with host governments, bilateral and multilateral donors, and nongovernmental organizations involved in development assistance. We found that AID has incorporated these policy objectives into its Action Plan and other guidance for DFA. At the three missions we visited, we found that DFA's initial implementation was consistent with congressional guidance.

AID Resources Concentrated in Selected African Countries

We found that AID has concentrated DFA resources in countries that have adopted policy reforms to support economic growth. To allocate DFA resources, AID in consultation with the Department of State places each African country into one of three categories. (See table 3.1.)

Table 3.1: AID's Categorization of African Countries for Purposes of Distributing DFA Funds (Fiscal Year 1990)

Category	Criteria	Countries in category[a]
I	Countries with a demonstrated commitment to sound and/or improved economic policies, good potential for economic development, and the capability for managing serious debt or foreign change problems.	Botswana, Burundi, Cameroon, Chad, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Senegal, Swaziland, Tanzania, Togo, Uganda, Zaire, and Zambia.
II	Countries in which the United States has limited development interests, and DFA resources are minimal.	Benin, Burkina Faso, Cape Verde, Central African Republic, Comoros, Congo, Cote d'Ivoire, Equatorial Guinea, Mauritania, Mauritius, Namibia, Nigeria, Sao Tome/ Principe, Sierra Leone, and Zimbabwe.
III	Remaining countries receiving no DFA bilateral assistance.	Angola, Djibouti, Ethiopia, Gabon, Liberia, South Africa, and Sudan

[a] Of the African countries, AID categorized only 45. In addition, two African countries (Angola and Gabon) do not receive DFA funds.

Source: AID Project Budget Data System and AID's annual Congressional Presentations.

[1] Non-project assistance (which includes cash transfers) is provided to African governments on the condition that they undertake agreed upon policy reforms to promote economic development. Generally, such reforms are intended to stimulate potential for long-term growth by reducing the public sector's role and increasing private sector activities.

In its fiscal year 1990 budget presentation to the Congress, AID's stated goal was to concentrate 80 percent of DFA funds in 20 African countries with high potential for economic growth. While the number of targeted countries has increased from 20 to 23, our analysis shows that AID has concentrated DFA resources in category I countries.

As shown in table 3.2, category I countries received from 67 to 70 percent of U.S. development assistance funds for individual African countries during the 3 fiscal years preceding DFA (1985, 1986, and 1987). In contrast, during the first 3 fiscal years of DFA (1988, 1989, and 1990), these same countries received from 79 to 86 percent of DFA's funds to individual countries.

Table 3.2: U.S. Bilateral Development Assistance Funding for Africa and Category I Countries

Dollars in millions

Fiscal year[a]	Africa total[b]	Category I total	Category I as percentage of Africa's total
1985	$273.0	$183.1	67
1986	288.3	201.0	70
1987	257.4	171.8	67
1988	406.5	333.2	82
1989	400.6	317.8	79
1990[a]	382.2	331.8	86

[a]Estimates.

[b]These figures reflect development assistance or DFA funds distributed only on an individual country basis and do not include amounts used to fund regional programs, such as the Southern Africa Regional Program, nor do they include economic support funds and food aid.

Source: AID's annual Congressional Presentations.

In some African countries, the shift in U.S. development assistance funds has been dramatic, and the shift can be directly related to AID's efforts to concentrate DFA funds. With the advent of DFA, AID determined that the Liberian government had an "inadequate economic policy framework and lack of political will" (even before the civil war of 1990) and the agency designated Liberia as a category III country receiving no DFA funds in fiscal year 1990. In contrast, Uganda was included in category I because, according to AID, the Government of Uganda has undertaken a series of reform measures to stabilize its economy. As a result, U.S. development assistance funds to Uganda have risen from an average of less than $9 million annually before DFA (fiscal years 1985-1987) to an average of over $26 million annually in the first 3 fiscal years of DFA (1988, 1989, and 1990).

DFA Resources Concentrated in Specific Sectors

AID's DFA approach for a targeted country is to identify problems of highest priority and then to concentrate resources in the applicable sectors of that country's economy. By selectively concentrating DFA resources, AID expects that fewer, but larger and more effective, projects will be undertaken.

In fiscal year 1987, AID had 308 projects underway in Africa, whereas by fiscal year 1990 the number of projects in Africa had decreased to 263. (See table 3.3.) Table 3.3 also shows that the number of AID projects in Africa increased during the first 2 fiscal years (1988 and 1989) of DFA. According to AID officials, these increases occurred because missions began implementing DFA projects while continuing to complete ongoing pre-DFA projects. Table 3.3 further shows that the average funding level per project has increased annually since fiscal year 1987.

Table 3.3: U.S. Development Assistance Projects and Average Funding Level Per Project in Africa

Dollars in millions

Fiscal year	Number of projects[a]	Average funding level per project
1985	303	$5.9
1986	311	6.0
1987	308	6.1
1988	323	8.4
1989	342	8.5
1990	263	9.1

[a]The annual numbers include all projects that were ongoing at any time during the respective fiscal year.

Source: AID Project Budget Data System and AID's annual Congressional Presentations.

At the missions we visited in Africa, we found that DFA resources were being concentrated in specific sectors and projects AID officials regard as key. Recently completed country development strategies in Kenya and Malawi are now focused more on specific sectors. For example, in Kenya the concentration is on agriculture, family planning, and the private sector, whereas in Malawi, the concentration is on agriculture, off-farm employment, family planning, child survival, and health care. The mission in Senegal had not completed a new country development strategy at the time of our visit; however, officials there told us that the strategy document would be more focused and may even be limited to one sector—family planning. While these missions had not changed the sectors they were emphasizing, AID officials in all three countries emphasized that reducing the number of projects will enable missions to improve project design, management, and evaluation and to have a positive impact on African development.

Combining Non-Project and Project Assistance

To enhance the policy framework necessary for economic development, the World Bank and other major donors have long encouraged African governments to reduce regulatory constraints, promote freer markets, and undertake various other policy reforms. With enactment of DFA, the Congress specifically directed AID to promote policy reforms to restructure African economies at the sector level. The legislation intended that DFA include indirect interventions (i.e., non-project assistance to support policy reforms) in combination with direct interventions (i.e., project assistance). The Congress has directed AID to use a combination of non-project and project assistance and it intended that AID use up to 30 percent of DFA funds for non-project assistance.[2]

AID's July 1988 DFA policy guidance sets forth the strategy for planning and implementing non-project and project assistance. This strategy is to integrate non-project and project assistance to complement each other. In April 1990, AID's African Bureau circulated a discussion paper to missions addressing ways to implement, monitor, and evaluate non-project assistance.

We found that AID missions we visited have been combining sector-level non-project assistance with project assistance, and AID officials told us that combining non-project assistance with project assistance has been beneficial to their programs. The officials said that although AID's use of non-project assistance predates the 1987 legislation, DFA has further enabled missions to use non-project assistance to encourage host governments to undertake policy reforms.

At each of the three missions we visited, we found programs that combined non-project and project assistance. For example, AID's Kenya Health Care Financing Program combined non-project and project assistance in an attempt to improve health care financing. The non-project assistance (in the form of cash transfers) will provide budgetary support to Kenya's Ministry of Health and, in return, the Government of Kenya will establish hospital user fees and reform insurance industry policies. As part of this program, AID is providing project assistance in

[2]The Congress intended 20-percent usage without congressional consultation and an additional 10 percent with congressional consultation.

the form of technical assistance and training for implementing, monitoring, and evaluating the reform program.

In Malawi, AID's Enterprise Development Program is designed to increase incomes and employment in the private sector. Non-project assistance (cash transfers) will provide budget support to quasi-governmental programs that encourage private enterprise. In return, the Government of Malawi will liberalize its trade policies and reform its exchange rate management. The project assistance is helping Malawian businesses improve their operations by sponsoring a series of workshops conducted by technical experts in production and management.

AID's Banking Sector Reform Program in Senegal, designed to improve the management and efficiency of the banking sector, has also combined non-project and project assistance. AID has been providing non-project assistance (cash transfers) as budget support to Senegal. These funds will be used to repay government debts to Senegalese banks to improve the ability of the banking system to extend credit to farmers, commercial traders, and entrepreneurs. In return, the Government of Senegal has agreed to reduce its involvement in the banking sector by becoming a minority shareholder in key banks. The program's project assistance component will provide technical support in the areas of debt recovery, bank management, and bank privatization.

Addressing Social and Environmental Effects of Development

DFA legislation intends that AID should consider the potential short-term adverse social effects of policy reforms and that bilateral assistance should seek to improve women's status by encouraging and promoting their participation in the national economies. DFA legislation also emphasized the importance of maintaining and restoring natural resources in ways that increase agricultural productivity, and provided that 10 percent of DFA funds should be used for maintaining the natural resources base.

Social Impacts of Policy Reforms

AID and many other donors in Africa are attempting to address the social impacts of policy reforms. In July 1988, AID provided guidance to its missions in Africa stating that all proposals for non-project assistance must include an assessment of social costs and benefits and must identify adversely affected groups. If adverse effects are anticipated, the missions were required to address such problems. Also, AID's Africa conference for mission directors, held in December 1988, included presentations on the impact of policy reforms on poverty and the role of women in development. In addition, AID contracted with Cornell University to study the effects of African policy reforms on the poor. One Cornell analysis[3] concluded that a large number of households will not benefit in the short-term from policy reforms. Thus, AID must continue to be concerned that its country programs are linked to poverty alleviation.

At the missions in Malawi and Senegal, we found that AID was specifically targeting assistance to groups who might be adversely affected by policy reforms. In Malawi, for example, AID is implementing the Enterprise Development Program to increase off-farm employment opportunities in the private sector to reduce unemployment resulting from agricultural policy reforms. The program is aimed at developing small- and medium-scale enterprises that will employ people in rural areas. Similarly, in Senegal, AID has a project to improve the standard of living for poor people affected by the government's ongoing policy reform program. These policy reforms include budget austerity measures that may reduce government services, such as primary health care and literacy training to poor rural farmers. To mitigate the effect of this reform effort, AID is supporting nongovernmental organizations that will provide similar services for the affected people. The mission in Senegal is also expanding or accelerating several ongoing projects to increase employment for the poor by providing credit to small businesses in a poor urban area of Dakar.

Focus on Women in Development

We found that AID's Africa Bureau and each of the three AID missions had programs planned specifically to help women. For instance, the Africa Bureau has planned a $750,000 regional project to increase the participation of African women in social and economic development activities. In Kenya, $1.6 million (or 40 percent) of AID's annual funding for training is planned for training women and, thus, increase their employment opportunities. The AID missions in Malawi and Senegal had similar efforts planned to improve the opportunities for women in the development process.[4]

[3]Cornell University Food and Nutrition Policy Program, David E. Sahn, Fiscal and Exchange Rate Reforms in Africa: Considering the Impact on the Poor, March 1990.

[4]Both the Malawi and Senegal efforts were parts of larger projects valued at $18 million and $15 million, respectively. Assistance to women was a prime objective of both projects, but the funding levels specifically for women had not been determined at the time of our visits to these missions.

Protecting Natural Resources

In March 1990, AID issued a natural resources management plan calling for concentrated efforts in selected countries and designating specific countries as high or medium priority for natural resource management. AID also urged its missions in Africa to develop programs reflecting the integral role of natural resources management.

In Kenya and Senegal, efforts were underway by AID to directly address natural resources or environmental problems. In fiscal year 1991, the Kenya mission will begin funding a project to help the Kenya Wildlife Service. Wildlife is an important natural resource in Kenya and also generates significant tourist revenues. AID funds will be used to train and provide technical support to improve the management of the Kenya Wildlife Service. In Senegal, where water is an important natural resource, AID is implementing the Southern Zone Water Management Project to recover productive farmland lost as a result of drought. The project includes the construction of a series of dikes to prevent salt water from overtaking productive farmlands. As part of the project, AID will organize and train local farmers to operate and maintain environmentally sound irrigation systems.

At the time of our visit, the AID mission in Malawi had not implemented any environmental or natural resource projects. However, mission officials told us that rapid population growth is the root cause of deforestation in Malawi and that AID indirectly supports natural resource management in Malawi by funding numerous family planning projects.

Integrating Food Aid With DFA

In addition to DFA, the United States provides food aid to African countries to combat hunger and malnutrition and encourage economic development. AID has encouraged its missions in Africa to integrate food aid and agricultural development assistance efforts to increase the potential impact of both programs. For example, the December 1988 conference for African mission directors included a presentation on how to integrate food aid into overall development assistance strategies, and the DFA Action Plan emphasized integrating different U.S. programs to achieve sustainable, broad-based, market-oriented economic growth. AID subsequently issued guidance for missions to follow in determining how to achieve maximum developmental impact from the use of local currencies generated by food aid. The guidance was intended to provide missions a framework for addressing the overall impact of these local currencies on the economy and their specific impact on monetary and fiscal policy.

In Kenya and Senegal, we found that AID missions were integrating food aid programs with DFA agricultural assistance.[5] In Kenya, government controls over shipments of maize and beans, and the poor road conditions that exist, have created an inefficient marketing system. To correct this situation, AID has combined DFA funds and food aid to support the government's removal of controls over the movement of maize and beans and increase public dissemination of price information. The food aid will assure that the government will repair and maintain roads to markets, resulting in faster movement of goods and less vehicle maintenance.

In Senegal, local currency generated from the sale of U.S. food aid is used to promote the consumption of local cereals through studies and consultant services related to the agricultural sector. This measure is consistent with AID's country development strategy for Senegal, which includes programs designed to improve agricultural output.

Working With Host Governments, Other Donors, and Nongovernmental Organizations

Under the DFA legislation, U.S. bilateral assistance is to be coordinated with host governments to support and enhance indigenous development capabilities. It also encourages AID to coordinate closely with other donors to increase the impact of development assistance and to cooperate with nongovernmental organizations to plan and carry out development assistance activities. AID has issued guidance to implement these legislative directives.

Coordinating DFA Programs With Host Governments

At the three missions we visited, AID was coordinating with the host governments. Mission officials stated that coordination with host governments has been a long-standing AID policy. However, they added that coordination of DFA programs has facilitate achieving a measurable impact by ensuring that AID and host government plans were consistent. Both AID and host government officials in all three countries stated that coordination was generally good.

In Kenya, AID officials were meeting weekly with officials from the Ministry of Foreign Affairs. These host nation officials told us that the meetings were very beneficial. AID staff were also interacting on a daily basis with Kenyan officials in other ministries. We also found that AID

[5]In the third country we visited, Malawi, the only U.S. food aid being provided was emergency food aid for Mozambican refugees. Thus, there was no sale of food aid and no opportunity for AID to integrate local currency with DFA.

officials had reviewed the Government of Kenya's development plans to ensure compatibility with the mission's country development strategy. A comparison of these documents indicated that they were generally compatible. For example, Kenya's plans include liberalizing grain markets and facilitating the transport of agricultural products. Consistent with these government plans, AID provides funding to disseminate information about grain prices and transportation regulations and to repair and maintain roads to facilitate the movement of grains.

AID mission and Malawi government officials also said that overall coordination there was generally good. Malawian officials commented very favorably about open discussions they had with AID. As in Kenya, we compared the Government of Malawi's and AID's development plans and found them to be generally consistent. For example, host government goals include decreasing infant and child morbidity and mortality. Consistent with this goal, AID funded a child survival project to provide clean water to communities and to improve the health care skills of Malawians. AID officials also involved Malawi government officials in drafting the mission's current country development strategy.

In Senegal, AID and host government officials said that the general level of coordination was good, and AID mission officials had considered host government plans in selecting projects to fund. For example, the host government began to privatize the banking sector in 1988 as part of its policy reform program. Compatible with this reform program, AID has provided technical support and cash transfers to assist the host government in its restructuring of the entire banking sector.

Although AID and host government coordination reportedly was good overall in the three countries we visited, programs were not totally free of friction. In both Malawi and Senegal, for example, high-level government officials told us that AID, at times, had circumvented their offices and reached informal project agreements with lower-level ministries. Host government officials in both countries told us that this situation has led to some confusion. According to AID officials, the problem was due to a lack of communication within the respective host governments' agencies. AID officials in both countries were attempting to correct these situations.

AID Missions Are Working With Other Donors

The United States is but one of many donors that provide development assistance to Africa. For about half the region's countries (including the three countries we visited), the World Bank formally coordinates the activities of major donors (including AID) by sponsoring periodic, country-specific meetings (or "consultative groups"). In addition, during our review in Kenya, Malawi, and Senegal, officials of donor organizations, including AID, met informally to discuss individual sectors of the respective host country's economy. AID missions took an active role in such meetings. For example, the AID mission director in Kenya chaired meetings of donors to discuss health and population issues, and the Malawi mission director chaired meetings to discuss agricultural issues.

AID Missions Are Working With Nongovernmental Organizations

AID and many bilateral and multilateral donors in Africa have increased their reliance on nongovernmental organizations, and the three AID missions we visited were implementing projects that emphasize the use of such organizations. In Kenya, where there are at least 400 nongovernmental organizations, AID is funding a project designed to increase their effectiveness by helping them to plan and manage development efforts. Many nongovernmental organizations, in turn, have a goal of increasing their development impact by training Kenyans to develop business and management skills.

Although there are only 26 nongovernmental organizations in Malawi, donors meet regularly to identify ways to increase their involvement. The AID mission is supporting the work of the nongovernmental organizations in a variety of areas—agriculture, natural resources, small- and medium-size enterprises, health care, and family planning.

In Senegal, where there are over 120 nongovernmental organizations, the AID mission is supporting the Government of Senegal's efforts to work with these organizations. AID has funded a number of nongovernmental organizations involved in helping the Senegalese people improve literacy, agricultural productivity, and access to primary health care.

In general, nongovernmental organization officials in Kenya, Malawi, and Senegal were satisfied with the level of coordination they had with AID and with AID placing a stronger emphasis on working with nongovernmental organizations in development assistance.

Conclusions

The Congress emphasized certain policies when it enacted DFA, and AID's Africa Bureau has directed its missions to implement these policies. The three African missions we visited were generally beginning to implement these policies as directed.

Administrative Flexibility to Improve Delivery of Assistance to Africa

DFA gave AID some added administrative flexibility to improve the delivery of U.S. bilateral development assistance to Africa. To improve the timeliness and appropriateness of procurements funded under DFA, such procurements are exempt from "buy American" rules. However, the DFA procurement exemption has had no significant effect because AID's guidance to missions in Africa essentially requires them to continue to follow the "buy American" rules.

The decision not to use functional accounts—funds for specific areas, such as agriculture or health—was another flexibility offered by DFA. This flexibility has facilitated needs-based planning, promoted cross-sectoral projects, and reduced incentives for AID missions in Africa to keep funds in marginal projects.

Restrictive Procurement Source Rules

Procurement is an important part of implementing development projects. Problems in acquiring goods and services can lead to delays and increased costs for projects. According to AID, one problem that caused time-consuming delays was that procurement rules favored U.S. sources—even if American manufacturers had no established markets or service networks in Africa.[1] This problem was described in an Office of Technology Assessment report on AID programs in the Sahel region of Africa.

> Congressionally mandated AID requirements to use American equipment have proven ineffective in stimulating new markets for U.S. goods, a major objective of such measures. Meanwhile, they have complicated and even hindered project operations. Delivery time of U.S. equipment has been long and inoperative U.S. vehicles, pumps, and other equipment litter the Sahel for want of spare parts, maintenance skills, or operating funds. Medicines used in important AID village-level primary health care programs often come with doses written in English. In addition, these 'buy American' requirements have led to the use of inappropriate capital-intensive technologies ... increases [in] the administrative burden on the Sahelian institutions ... [and] have greatly increased the total cost of aid...[2]

The Congress, in passing the DFA legislation, intended to provide AID more flexibility in the procurement of goods and services. The legislation freed AID from "buy American" rules by exempting DFA procurement from section 604(a) of the Foreign Assistance Act, which generally

[1] Exemption from U.S. procurement sources was possible, but only after a time-consuming waiver process.

[2] Office of Technology Assessment, Continuing the Commitment: Agricultural Development in the Sahel (Aug. 1986, p. 105).

restricts procurement to the United States. The legislation suggested that program objectives be considered in making procurement decisions. The Conference Report (H. Rept. 100-498 at 817 to 819) noted that in light of the flexibility provided, AID's annual report to the Congress should address "the steps taken to procure AID-financial commodities from the United States to the extent consistent with program objectives." AID took this, and other admonitions from the Congress, to mean that it should maximize U.S. procurement whenever practicable and that the share of procurements from U.S. sources should remain relatively the same as before DFA legislation was enacted.

In April 1988, AID's Africa Bureau issued implementing instructions to the missions on the special DFA procurement policy. The instructions transferred virtually all DFA procurement authority to the missions, including the authority to procure commodities and services from any area or country in the "Free World" without processing a waiver. The instruction stated, however, that missions were to "use such authority sparingly," and that "significant decreases in overall U.S. source commodity or technical assistance purchases are not intended or expected." Missions were instructed to develop their DFA procurement plans to "assure a high level of U.S. source procurement." In July 1988, AID issued more specific guidance on DFA procurements as a supplement to its handbook on procurement policy (Handbook 1). This supplement confirmed that the authorization to procure from sources other than the United States should be used sparingly.

Officials at each of the three missions we visited told us that AID's procurement guidance is very restrictive, and in their opinion, does not provide the flexibility intended by DFA. These officials told us that the guidance essentially said that procurement should proceed as before DFA, without any significant changes in sources. Consequently, missions are reluctant to deviate from past procurement practices.

As a result, mission officials continued to cite procurement problems due to U.S. source requirements. For example, mission officials in Malawi stated that an AID rail transportation project suffered significant delays because they had to assure that railroad locomotive components were not available in the United States. This, and examples we found at other missions, indicate that the problems cited by the Office of Technology Assessment continue at many locations.

Some AID headquarter and field officials noted that some modest improvements have resulted from the DFA procurement rules; for example, individual procurement waivers have been eliminated. These officials explained that missions can now complete a narrative explanation justifying sources and origin issues as part of their overall procurement plan for an entire project rather than processing individual waivers for each procurement action. However, they said that the time saved by streamlining the waiver process was offset by the time required to meet a new requirement that AID report on steps taken to procure from the United States to the extent consistent with program objectives. Furthermore, some mission officials said processing the waivers had never been that onerous or time consuming, but that the requirement to procure in the United States was what had caused project delays. These officials pointed out that this requirement remains essentially unchanged.

The Absence of Functional Accounts Has Improved Project Planning and Implementation

Since 1974 the Congress has established specific amounts within the development assistance appropriation account that must be used for particular functions, such as (1) agriculture, rural development, and nutrition; (2) population; (3) health; (4) education and human resource development; (5) child survival; and (6) energy, environment, and private sector initiatives. This process has been called functional account earmarking. Those who oppose such earmarking argue that it can result in priorities being shaped by fund availability in specific accounts rather than by development needs and that it limits flexibility to respond to changing circumstances.

When the Congress created DFA, it decided not to use functional accounts to provide AID more flexibility. DFA allows funds to be used to carry out any development assistance activity in Africa consistent with the Foreign Assistance Act.[3]

AID headquarters and field officials stated that the absence of functional accounts for Africa has improved the agency's ability to plan assistance based on a country's specific development needs, undistorted by functional account funding levels. According to these officials, DFA has given them increased latitude to analyze a country's problems and devise an

[3]While DFA is not subject to the usual functional accounts, DFA does specify three spending "targets." AID should target the equivalent of 30 percent of DFA funds—10 percent each for (1) renewable natural resources, which increase agricultural production, (2) health activities, and (3) voluntary family planning. In fiscal year 1990, the Congress added a spending target for education.

appropriate country development strategy, which considers host government's policies, other donor activities, and AID's track record in specific types of activities and projects. They also stated that the absence of functional accounts has facilitated AID participation in cross-sectoral projects; that is, projects that encompass efforts in more than one functional area, such as family planning, health, and education.

Each AID mission we visited in Africa had cross-sectoral projects underway that were expedited by DFA. For example, in Kenya, AID was undertaking a cross-sectoral project to increase the effectiveness of nongovernmental organizations. The project will include grants to nongovernmental organizations for a broad range of development activities, such as in the areas of agriculture and private enterprise. Mission staff told us that this type of cross-sectoral project would not have been undertaken without DFA's administrative flexibility.

In Malawi, DFA has improved cross-sectoral planning in the area of human resource development, which involves all sectors of the economy. Mission officials told us that Malawi needs a better trained labor force in every economic sector. To satisfy this need, the mission has implemented a DFA-funded project to strengthen Malawi's postsecondary and vocational training capabilities to supply the private and public sectors with skilled workers in such areas as accounting, economics, agriculture, engineering, health, nutrition, family planning, and computer science. AID officials told us that the mission had tried to implement this cross-sectoral project before DFA, but it had been constrained by insufficient funds in the mission's functional account for education.

AID's Southern Zone Water Project in Senegal is also an example of a cross-sectoral project assisted by DFA. This project has an agricultural component (developing irrigation systems), an education component (training villagers to maintain the irrigation systems), a natural resource component (reclaiming arable lands), and a private sector component (using private firms to construct irrigation canals). Mission officials said that, without DFA, several functional accounts would have been needed to pursue this project, with the risk of jeopardizing the entire project if any one account encountered funding problems.

According to AID officials, before DFA, project funding was very inflexible. They stated, for example, that missions had to spend funds in a specific functional account, such as education, or lose the funds if they were unable to receive timely reprogramming approval. As circumstances changed, they were not able to readily move funds from one functional account to another. These officials also stated that the inflexibility of functional accounts sometimes resulted in poor projects. For example, after a mission obligated funds to a project (in a specific functional account), the situation in the host country could change and compromise that project. The mission, unable to shift the funds to another functional account, may have decided to leave the funds in the compromised project rather than lose the funds altogether.

The absence of functional accounts under DFA facilitates the agency's ability to shift funds more quickly from marginal projects to programs and activities that are working. For example, the mission director in Kenya cited a family planning project that required immediate funding early in fiscal year 1990. To meet this urgent requirement, the mission postponed a human resources development project and shifted the funds to the family planning project. Mission officials stated that DFA's flexibility made it easy to move funds between the different projects.

AID mission officials in Senegal cited two examples of agricultural projects that were initially programmed to start in fiscal year 1990, but were terminated or postponed in mid-year. One project was terminated when the host government agency began experiencing significant organizational and financial problems, and another project was postponed by 1 year due to continued negotiations among AID, the host government, and other donors regarding Senegal's agricultural development strategy. With DFA, the mission was able to shift $8.5 million from the agricultural projects to four projects in other sectors that needed additional funding. Mission officials stated that, before DFA, they may have been tempted to obligate the funds for the agricultural projects rather than risk losing the $8.5 million.

In Malawi, AID mission officials shifted $2 million from a joint venture health care project after the other participant unexpectedly withdrew support. The funds were originally obligated in fiscal year 1989 for the joint venture project, but were shifted to another project in fiscal year 1990. According to AID officials, DFA's flexibility allowed the mission to make a timely adjustment by shifting the funds to another ongoing project, rather than keeping the funds in a potentially troubled project, which they said would have been the case under the pre-DFA system of functional accounts.

The assistant administrator for AID's Program and Policy Coordination Bureau, at the time DFA was created, told us that the absence of functional accounts allowed the Africa Bureau to focus on program results. Before DFA, the Africa Bureau's focus was on program inputs, in the form of functional accounts, rather than on maximizing results by applying resources most efficiently in each country.

Conclusions

AID officials associated with DFA believed that the exemption from "buy American" procurement source rules had not led to major improvements in project management by missions in Africa. The exemption was not effective because AID's guidance does not permit the missions to take full advantage of the flexibility offered by the Congress. The Congress provided this flexibility because it believed missions had been hampered in the achievement of program objectives by the requirement that they generally make all procurement from U.S. sources. Nonetheless, AID's DFA guidance continued to instruct its missions to use this new authority sparingly and to continue to maximize U.S. sources. As a result, missions have been reluctant to take advantage of DFA's intended procurement flexibility.

The absence of functional accounts has improved needs-based planning by AID missions in Africa. As part of this improved planning, missions can more easily pursue cross-sectoral projects that address a variety of development needs. In addition, the absence of functional accounts has added flexibility for programming funds as needed. DFA also encourages missions to de-obligate funds in marginal projects.

Recommendations

We recommend that the Administrator of AID direct the Africa Bureau to evaluate DFA procurements to date to determine whether AID's "buy American" guidance was indeed too restrictive. If this evaluation shows that the timeliness or appropriateness of procurement actions has not improved, we also recommend that the Administrator of AID revise the DFA procurement guidance to take greater advantage of the flexibility the Congress provided.

AID Can Improve Efforts to Measure the Impact of DFA

DFA history clearly shows that the Congress expects AID to implement DFA in a manner that will have a measurable impact on Africa's economic development. To measure the impact of DFA, AID's Africa Bureau has provided its missions guidance for monitoring, evaluating, and reporting on their progress in meeting objectives. We found that AID can improve this guidance by developing appropriate approaches and techniques for missions to use in analyzing relevant baseline and monitoring data, including a focus on evaluating sustainability, that is, the benefits of DFA programs will continue in the long run. We recognize that measuring impact and attributing it to DFA will be less than absolute because economic development is a long-term process influenced by many factors, but an improved evaluation methodology would result in a better evaluation outcome.

AID Has Established a Framework for Measuring the Impact of DFA

AID's usual method of evaluating programs was to measure program output rather than impact, but under DFA, AID is shifting the emphasis of its program evaluation from program output (e.g., number of children vaccinated) to program impact (e.g., improved child survival rate).

The DFA Action Plan, itemized 4 strategic objectives, 12 targets, and 72 benchmarks for assessing impact. (See app. I.) Under this plan, progress toward the objective of improving food security, for example, will be assessed, in part, in terms of increased agricultural production, using such benchmarks as agricultural output, diversity of crops produced, the level of chronic malnutrition, and other indicators. According to Africa Bureau officials, establishing objectives, targets, and benchmarks strengthens the agency's monitoring, evaluating, and reporting capabilities. Bureau officials told us that individual missions in Africa will track only those particular objectives, targets, and benchmarks that are relevant to their respective country development strategies.

In addition to the DFA Action Plan, the Bureau has issued other guidance to improve evaluation of DFA's impact. AID missions have been directed to revise their strategic planning processes to increase the emphasis on impact. The Bureau has also introduced new requirements (to be addressed in country strategies) for missions to follow in planning and tracking the progress of DFA programs and projects. According to Bureau officials, these new requirements will streamline country program design and management by combining the missions' analytical and operational planning functions. In addition, the Bureau has directed missions to use a new planning tool, the "objective tree," to encourage mission planners to think through, in a step-by-step manner, the ways in which a program will have an impact on development.[1] The Bureau has also directed AID missions in Africa to assess, and report annually on, the impact of their programs and projects. As part of this assessment, missions must re-examine program objectives, review the contributions of their programs and projects and, if necessary, modify them.

During our visits to Kenya, Malawi, and Senegal, we found that the AID missions were starting to implement DFA guidance on evaluating impact. AID officials in all three countries told us that implementing fewer, but better targeted projects will improve the impact of their programs. The officials stated that the Africa Bureau's DFA guidance helped to set realistic and definable objectives in areas where they can have a measurable impact.

AID Guidance for Measuring Impact Could Be Improved

Although Africa Bureau guidance provides a framework for evaluating the impact of DFA programs and projects, the guidance could be improved. In particular, the guidance does not describe appropriate techniques and approaches for missions to use in analyzing relevant baseline and monitoring data. Also, AID guidance to African missions does not sufficiently discuss the sustainability DFA impacts in the long run. AID officials have acknowledged that DFA evaluation guidance needs further development.

Guidance Should Describe How to Measure and Analyze Impact

The Africa Bureau's guidance on evaluating impact, with its identification of objectives, targets, and benchmarks, directs missions to collect baseline data on conditions that DFA programs and projects will try to improve. We found that missions were in the process of identifying and gathering baseline data to evaluate DFA programs and projects. For example, at the time of our visits, the AID missions in Kenya and Malawi had recently completed new country strategies that identified the types of baseline and monitoring data to be collected. However, officials at these missions were still in the process of determining the types of analyses relevant for measuring impact because the Africa Bureau's guidance had not addressed this issue.

Africa Bureau officials acknowledged that DFA guidance to missions for measuring impact should be improved by describing issues to consider and approaches and techniques to analyze impact. For example, if an AID mission initiated child survival programs in 1988, simply comparing the

[1] See appendix II for a discussion and an example of an objective tree.

rate of infant mortality in 1988 and 1989 would not demonstrate impact. To demonstrate impact, some "controls"—or methods of showing that other factors were unlikely to cause the impact—would have to be introduced to the evaluation. As AID officials pointed out, establishing "control" groups to evaluate the impact of such programs may be impracticable; however, one method, for example, would be to conduct a panel study or a survey where the AID programs were being conducted. Either technique would provide details on how AID actions, rather than other events, had specifically helped beneficiaries and led to the impacts claimed. This information would provide individual measures of impact that would put the aggregate data in perspective. Other standard methods of control that might be discussed in DFA evaluation guidance include comparing infant mortality rates to comparison groups that were not covered by the AID program, using shadow controls, employing statistical controls, or applying known standards of comparison to purported impacts. In our opinion, a discussion of relevant approaches and methods and their feasibility and costs would strengthen DFA evaluation guidance.

Guidance Should Address Sustainability

Many development programs and projects in Africa have had a history of failure due to lack of sustainability when donor assistance ended. The Congress stated in the DFA that it should promote self-sustaining development. Therefore, DFA guidance should address the issue of sustainability so that missions can evaluate the long-term benefits of DFA activities.

We found that the Africa Bureau has issued very little guidance on evaluating the sustainability of DFA programs and projects. Moreover, while AID headquarters has issued some general guidance on sustainability applicable to the agency's worldwide activities, the guidance does not describe how missions should evaluate sustainability. Officials from AID's Center for Development Information and Evaluation in the Program and Policy Coordination Bureau, which drafted the agencywide guidance, acknowledged that the guidance does not currently provide missions specific approaches or techniques for evaluating sustainability; however, they stated that they are planning to develop methods for evaluating sustainability.

One strategy for developing guidance on sustainability is to work with the Center task force that is developing relevant methods. Until this methodology has been developed, the Africa Bureau could develop guidance on the issues that should be addressed in evaluating program sustainability. Some AID evaluations have already presented some of these key issues. For example, according to an AID evaluation on health programs,[2] some factors that are critical to determining whether an activity will survive after AID leaves are

- how the activity will be financed,
- how involved beneficiaries are in the planning and management of the activity, and
- whether host country policies are supportive of the activity.

Economic Development Subject to Many Influences

We recognize that, even with improved evaluation guidance covering data analysis methods and the sustainability of DFA programs and projects, AID will have a difficult time measuring the impact of DFA because economic development is a long-term process subject to many variables. Such variables may range from the commitment of host governments to the vagaries of weather conditions and the vicissitudes of prices for primary export commodities.

There are no quick fixes for development in Africa, a region whose economic problems have proven to be as intransigent as they are pervasive. According to the World Bank, "Despite 25 years of development programs and projects supported by multilateral and bilateral aid institutions, two-thirds of the rural population and one-third of the urban population of Sub-Saharan Africa remain below the absolute poverty level."[3]

It should be emphasized that new policy directions for delivering economic development assistance under DFA may require years before any lasting results are evident. Further, even if long-term results are achieved, attributing such results either singularly or directly to DFA may be inappropriate or infeasible. Economic development progress may not be the product of any one donor, especially since one of AID's DFA priorities is to work cooperatively with other donors in delivering both non-project and project assistance.

[2]Development Assistance and Health Programs: Issues of Sustainability (AID/CDIE, AID Program Evaluation Discussion Paper No. 23; Oct. 1987).

[3]World Bank, Poverty, Adjustment, and Growth in Africa (Apr. 1989, p. 19).

techniques for missions to use in analyzing relevant baseline and monitoring data and (2) address issues that missions should consider in evaluating the sustainability of DFA programs and projects.

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AID's Strategic Objectives, Targets, and Benchmarks for Measuring DFA Performance

Objective 1

Improving management of African economies by redefining and reducing the role of the public sector and increasing its efficiency

Target 1-1

Improved stability in African economies: better management of debts and better fiscal and monetary policies

Benchmarks

a. Fiscal deficits as a share of gross domestic product
b. Inflation rates
c. Efficiency of tax systems
d. Foreign trade balances

Target 1-2

Reduced government involvement in production and marketing of goods and services

Benchmarks

a. Number of countries with private agricultural marketing systems
b. Level of subsidies being paid to parastatals (quasi-governmental bodies)
c. Ratio of parastatal employment to private sector employment
d. Ratio of parastatal credit to total nongovernment credit

Target 1-3

Improved equity and efficiency in providing key public services, particularly in family planning services, health, education, and transportation infrastructure

Benchmarks

a. Percent contraceptive prevalence rate
b. Percent of population with access to contraception
c. Total fertility rate
d. Percent population growth rate
e. Involvement of private sector in production and marketing of contraceptives
f. Percent of children (12 to 23 months) who were vaccinated by age 12 months for selected diseases
g. Percent of women 15 to 49 years who have delivered a child in the last 12 months who have received two doses of tetanus toxoid
h. Percent of infants/children (0 to 59 months) with diarrhea who were treated with oral rehydration therapy
i. Percent of infants/children (12 to 23 months) who have a weight-for-age more than two standard deviations below the mean
j. Percent of infants (0 to 11 months) who are being breastfed and are receiving other foods at an appropriate age

k. Infant mortality rate
l. Collection and allocation of user fees
m. The share of governmental budget going to primary education
n. Enrollment levels
o. Drop out and repeater rates for primary and secondary schools (measures efficiency of basic education systems)
p. Literacy rates
q. Miles/kilometers of roads/railways rehabilitated and maintained
r. Costs of road rehabilitation over time
s. Share of the private sector in the provision of rehabilitation and maintenance services
t. Costs of access to services and related utilization of services
u. Price differentials across markets and across seasons
v. Transport costs as a percentage of total cost of production and marketing

Objective 2

Strengthening competitive markets so as to provide a healthy environment for private sector-led growth

Target 2-1

Liberalized commodity markets

Benchmarks

a. The number of commodity markets in which prices are market-determined, rather than administratively set
b. The level of distortion between border prices (based on world market prices) and domestic prices
c. Transactions costs for key commodities
d. Price correlations across space and time Benchmarks (continued)
e. Seasonal price fluctuations
f. Market volumes and numbers of sellers

Target 2-2

Liberalized factor markets

Benchmarks

a. Mobilization of domestic savings
b. Lending patterns, interest rates, and repayment records
c. Controls on labor mobility and on hiring and firing
d. Number of countries which have positive real interest rates
e. Amount of credit allocated by the market rather than administratively

f. Relationship between formal and informal sector wages
g. Formal sector employment

Objective 3

Developing the potential for long-term increases in productivity

Target 3-1

Improved natural resource management

Benchmarks

a. The number of community/individual initiatives in natural resource management
b. Wood fuel prices
c. Area of lands and forests under management
d. Public policy revisions which provide farmers and herders incentives for more sustainable resource management (land tenure, tree tenure, immediate economic benefits)
e. The number of voluntary users of improved management techniques

Target 3-2

Accelerated agricultural technology development and transfer

Benchmarks

a. Budgeting and staffing of agricultural research and extension facilities
b. Number of released technologies
c. Rate of adoption by farmers of improved seed, equipment, and other inputs such as fertilizer
d. Farm incomes: production of cash crops, marketing of food crops, value of home-produced consumption
e. Crop production (total output) and productivity (wage rate/person-day of labor; yield per hectare)

Target 3-3

Expanded skills and productivity on the job

Benchmarks

a. Numbers of people receiving short- and long-term training
b. Graduate degrees acquired
c. Work productivity of U.S. graduates on the job in their home countries
d. Farmer training
e. Business skills development
f. Estimated impact of skills development on incomes

Objective 4

Improving food security

Target 4-1

Reduction in year-to-year instability

Benchmarks

a. The degree to which food aid flows compensate for shortfalls (without destabilizing local markets)
b. The share of food aid in total food imports
c. Commercialization of agriculture
d. Stability of consumer price indices

Target 4-2

Increase famine preparedness

Benchmarks

a. Capacity to project and monitor food needs at national and sub-national levels
b. Capacity to provide emergency food on a timely basis

Target 4-3

Providing food and income to those most at risk

Benchmarks

a. Indicators of child malnutrition
b. Estimated cost of minimum diet compared to incomes, based upon consumer price indices
c. Household incomes or expenditures

Target 4-4

Increased agricultural production and utilization

Benchmarks

a. Agricultural production
b. Diversity of food and nonfood crops produced
c. Availability of agricultural technologies which explicitly address utilization considerations
d. Availability of agricultural technologies which address stability of yield, particularly in drought conditions
e. Level of chronic malnutrition

Source: Excerpted from AID, U.S. Assistance for Africa - The Development Fund for Africa (DFA) - An Action Plan, May 1989.

The Objective Tree

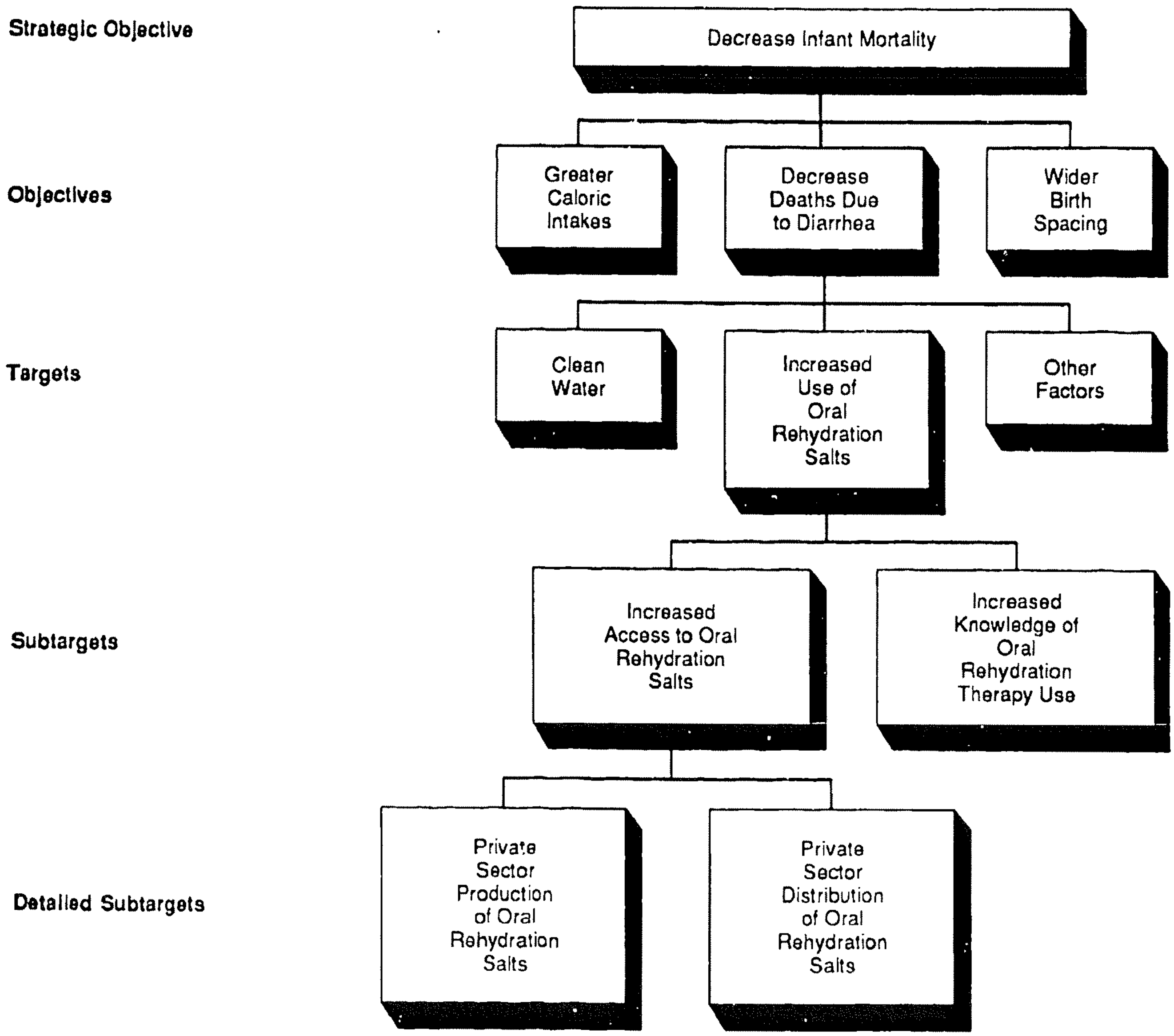
Since the early 1970s, AID has used an analytic tool called the "logical framework" in its project planning process. The logical framework assists project designers to think through how certain inputs lead to outputs and contribute to the objectives of the program or project. Key components of logical frameworks are "process indicators," which will help managers track actions taken during the implementation of a program or project. Process indicators are not measures of impact but, rather, interim actions. For example, the number of health care professionals trained in maternal and child care might be a process indicator, while the infant mortality rate might be a measure of impact. Although process indicators are useful to AID planners, DFA is attempting to measure impact and results, not process.

To assist in measuring DFA impact, the Africa Bureau has begun to use another analytic tool called the "objective tree" to plan and design DFA projects and programs. (See fig. II.1.) The objective tree is intended to complement the missions' logical frameworks by facilitating how mission planners think through cause and effect relationships and how they define objectives and targets. When creating the objective tree, mission planners work in three directions. The planners work

- downward (beginning at the top of the tree) and successively fill in the lower boxes by asking how each objective can be achieved,
- across each row by asking what the necessary and sufficient factors are that will achieve the objective in the box directly above, and
- upward (to complete the analysis) from the bottom and ask why each box is relevant and important to the box above it.

According to Africa Bureau officials, utilization of the objective tree will result in better planned projects that will have a measurable impact on development. The objective tree also clarifies the points at which a mission can expect to measure such impacts as well as defining how closely mission action will be associated with such impacts.

Figure II.1: Example of an Objective Tree



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