

EVALUATION OF
PROJECT PORTFOLIOS UNDER
SECTOR ASSISTANCE REPORTING SYSTEM
IN SELECTED AFRICAN MISSIONS

prepared by

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EXECUTIVE SUMMARY

U.S. AID expenditures for FY1987 in the project portfolios of the Kenya, Malawi, Rwanda, Mali and Senegal Missions were evaluated under the Sector Assistance Reporting System (SARS). The SARS methodology measures the distribution of expenditures between public and private sector activities. Aggregate expenditures for these five missions were \$121,675,000. Of this sum, \$51,184,000 or 42.1% was for the purpose of promoting private enterprise development.

Only \$1,238,000 or 1% of aggregate expenditures (2.4% of all private sector expenditures) were disbursed directly to indigenous private sector entities for private sector purposes. Host country governments were the largest direct recipient of U.S. AID devoted to private sector development. They received over half of all private sector expenditures (\$31,173,000 or 60.1%).

While the bulk of private sector expenditures were allocated to private sector end-users (\$14,369,000 or 11.8% of all expenditures) and policy dialogue activities (\$24,313,000 or 20.0% of all expenditures), a few large project expenditures account for the vast majority of these monies. Thus, such expenditures are not widely-distributed throughout the mission's portfolios.

Similarly, Economic Support Funds, while making the largest dollar contribution to private sector development (\$28,660,000 or 78% of private sector expenditures), were concentrated in a few programs devoted almost exclusively to policy dialogue. Development Assistance expenditures, although smaller (\$12,438,000 or 28.8% of private sector expenditures), were more widely-distributed throughout the mission portfolios. In this connection, see Strategic Recommendation No. 4 (pg. 34).

Largely due to imaginative use in Senegal and Mali, Centrally-Funded and PL 480 programs had significant expenditures in support of private sector promotion. This was achieved through policy dialogue in ways that affect a broad range of activities, including privatization of agricultural input deliveries.

Notwithstanding the current percentages of U.S. AID expenditures devoted to private enterprise in the subject mission portfolios, there are opportunities through innovative thinking, as was illustrated by some projects, to increase the amount and scope of expenditures intended to encourage private enterprise.

I. INTRODUCTION & METHODOLOGY

During May, June and July 1988, KMA & Associates (KMA) compiled available and relevant information concerning U.S. AID expenditures in the countries of Kenya, Malawi, Rwanda, Mali and Senegal and conducted trips to these countries to evaluate their portfolios under the Sector Assistance Reporting System (SARS). This report outlines KMA's findings and recommendations.

The in-country project evaluations confirmed KMA's earlier findings in evaluating U.S. AID expenditures for FY1985 to promote private sector development. KMA's Final Report in March 1986 (Contract No. PFC-0092-I-00-4045-00) stressed the following:

Given the multiplicity of socio-economic and political systems among aid-recipient countries, a single all encompassing approach [to stimulate and strengthen the private sector in developing countries] would not be appropriate. Rather, strategies for each country must be developed and perfected.

Each country evaluated in Africa was at a different level of private sector development and had different colonial histories, different physical resources, different political and economic institutions and different social perspectives. Accordingly, each has different development needs.

It would be unfair in comparing mission portfolios to rely solely on the level of expenditures devoted to promoting private sector development. However, it is clear that some types of expenditures can be employed in more than one mission to implement U.S. AID's private sector policy goals. Other expenditures appear to contribute to the achievement of those goals only in unique country-specific situations. In addition to evaluating mission portfolios, this report will seek to identify expenditures that could have multi-mission application.

It should be noted that SARS is designed for the specific purpose of measuring the actual flow of expenditures in a given year that were devoted to encouraging indigenous private sector development. There is a basic assumption that such expenditures, designed to evoke change in host country socio-economic and political systems and the condition of the indigenous peoples, have

their intended impact.

Policy, regulatory and administrative changes normally require more than a single year to have an observable impact. In order to assess whether private sector development objectives are actually being achieved through given programs, additional data collection and analysis would be necessary.

A brief outline of the SARS methodological approach will facilitate understanding of the analysis employed in evaluating the subject African mission project portfolios. Under SARS, annual expenditures (FY1987 in this case) were analyzed and divided into four categories (based on who was the "initial recipient" of U.S. AID's disbursements) and which are further divided into five subcategories (based on who was the "end-user" and/or what was the intended purpose of the expenditure).

The initial recipient heading is divided into four mutually-exclusive categories:

- A. Private sector entities in the host country.
- B. Private voluntary organizations, non-governmental organizations, and universities (hereafter collectively referred to as PVO/NGO/University);
- C. Host country government entities, regional public sector entities, mixed public/private ownership entities and parastatals (hereafter collectively referred to as the public sector or host government); and
- D. U.S. and other country private sector firms under contract to U.S. AID or to the host government.

Within categories A, B, C and D, there are sub-categories to classify expenditures according to the ultimate end-user and/or the intended purpose for which they are to be used. These subcategories are:

- 1. Intended purpose of assistance is to promote private enterprise AND the end-user of the funds is a private sector entity;
- 2. Intended purpose of assistance is to promote private enterprise AND the end-user of the

funds is NOT a private sector entity;

3. Intended purpose of assistance is for infrastructure development or for the general enhancement of human resources which contribute indirectly to private sector development.
4. Intended purpose of assistance is to influence change in host country policies through "policy dialogue," for the purpose of promoting private enterprise, or to fund studies bearing on private enterprise development; and
5. Intended purpose is for traditional public service, non-private sector policy dialogue or studies, humanitarian and social welfare programs, including infrastructure and training related to these purposes.

The distribution of monies among these afore mentioned categories and subcategories in the five mission portfolios is analyzed below. The expenditures recorded included those from Development Assistance projects, Economic Support Funds, PL 480 and Centrally-Funded programs.

Mission personnel were asked to review the SARS Manual to familiarize themselves with its definitions and methodology. KMA found such preparation to require about two hours of effort to master the SARS concepts. While KMA had completed draft SARS forms prior to its trips, SARS is designed to be self-administered. In reviewing expenditure classifications in the missions, occasional changes were necessary. KMA's field work with African Missions revealed that completion of SARS forms could be expected to take less than an hour per project. Speed increased as U.S. AID personnel became more familiar with the SARS process.

II. KENYA PROJECT PORTFOLIO EVALUATION

U.S. AID assistance in Kenya during FY1987 totalled approximately \$27,899,000, nearly half of which (\$12,887,000 or 46.2%) was devoted to promotion of private sector development. A very small portion of these expenditures were disbursed directly to Kenyan private sector entities (Cat. A expenditures are less than 0.3%)*; however, a large percentage was devoted to private sector end-users with the intended purpose of promoting private enterprise (SubCat. 1 expenditures totalled \$11,181,000 accounting for 86.8% of private sector expenditures)*.

The Kenya Mission portfolio for FY1987 was comprised of 23 programs, 8 of which had some component of spending designed to encourage indigenous private enterprise. These private sector programs were largely found among "development assistance" projects, as discussed below. No "centrally funded" or PL 480 programs showed expenditures devoted to private sector development purposes.

The predominant share of assistance promoting private sector development for FY1987 in Kenya was in the form of Economic Support Funds (ESF) accounting for \$9,673,000 or 75.1% of expenditures designed to support private sector development. These expenditures were all made in a series of grants under the same project "Structural Adjustment Program Grants" (615-0213) to provide balance of payments and budgetary supports.

Interestingly, this project and one other "Private Sector Family Planning" (615-0223) with \$1,336,000 in FY1987 expenditures intended ultimately for Kenyan private sector end-users were funded through initial disbursements directly to U.S. private sector entities (Cat. D1)*. Thus, \$11,090,000, constituting 39.7% of all mission expenditures and 85.4% of those expenditures specifically promoting private sector development, are classified in Category D1.

The Kenya Mission's heavy expenditures under Category D1 offers multiple benefits. First, a large amount of money ultimately makes its way to Kenyan private sector end-users. Second, these monies are managed by U.S. entities, thereby reducing the possibility that program effectiveness will be diminished by local governmental administrative expenses or distribution of funds on

* See SARS Worksheet appended to this report.

political rather than purely economic considerations -- i.e., opportunities for "crony capitalism." Third, the bulk of these expenditures flow back to the U.S. private sector from which U.S. AID purchased commodities totalling \$9,673,000 under the "Structural Adjustment Program Grants" project (615-0213).

These two mission programs totalling \$11,090,000 and the PL 480 program expenditures of \$9,292,000 allocated to public sector spending (D5)* alone account for \$20,382,000, or 73.3% of the Kenya Mission's \$27,899,000 portfolio in FY1987.

The remainder of the mission's portfolio was largely found in development assistance expenditures and contributions to centrally-funded programs. Review of these expenditures shows a more-widely disbursed allocation of expenditures among SARS categories with public sector expenditures exceeding those promoting private sector development by a margin of about 2-to-1.

1. Development Assistance

The Kenya Mission funded 16 separate bilateral programs in FY1987 totalling \$8,411,000. These expenditures were allocated primarily to public sector programs totalling \$5,197,000 (61.8%) with \$3,214,000 (38.2%) dedicated to development assistance programs that were intended to promote the Kenyan private sector.

Approximately equal amounts flowed to private sector entity end-users (SubCat. 1 expenditures were \$1,508,000 or 17.8% of development assistance)* and into programs that more indirectly encouraged private enterprise (SubCat. 2 & 3 expenditures were \$1,703,000 or 20.4% of development assistance)*.

The bulk of development assistance flowing to private sector entity end-users was through one project "Private Sector Family Planning" (615-0223) where expenditures totalled \$1,336,000. This project which privatizes family planning efforts may serve as a model for other missions where there are large family planning expenditures handled by the public sector and where there is a relatively large, well-established private sector.

Similarly, a single project "Rural Private Enterprise" (615-0220) accounted for \$1,529,000 of indirect

* See SARS Worksheet appended to this report.

assistance intended to encourage private sector development (SubCat. 2 & 3)*. This latter project also should be closely scrutinized for application to other missions, because it is designed to create 51 new businesses and 5500 new jobs directly with an additional 9000 indirect jobs created. Local funding is incorporated and the project is intended to be self-financing in 1993.

There was very little in the way of policy dialogue expenditures (SubCat. 4 totalled only \$3,000 or less than 0.1% of development assistance expenditures)*. These low SubCategory 4 expenditures could be a result of the relatively higher level of government acceptance in Kenya of policies that encourage the private sector. Thus, programs and incentives to change policy may not be as necessary in Kenya as in other developing nations which have little history or experience with market economies.

Fully 13 of the mission's 16 development assistance projects had some component of public sector expenditures totalling \$5,197,000. Nine projects were dedicated exclusively to public sector activities. Most dealt with training, Ag research and infrastructure, technology transfer and family planning. One project "Family Planning Services and Support" (615-0232) accounted for slightly more than half of development assistance supporting public sector activities.

As illustrated by the "Private Sector Family Planning" project (615-0223) discussed above, innovative program design can lead to promotion of private enterprise even through programs that appear on their face to involve essentially public service activities.

2. Economic Support Funds

There was only one ESF project in the Kenya Mission portfolio -- "Structural Adjustment Program Grants" (615-0213) -- with \$9,891,000 in FY1987 expenditures. As noted in the general discussion above regarding the mission portfolio, this project provided a large amount of money (\$9,673,000) to indigenous private sector end-users (SubCat. D1)* with \$218,000 allocated to public sector activities.

Because the initial recipients of the expenditures were U.S. private sector entities (Cat. D)*, this program's expenditures contributed both to Kenyan and

* See SARS Worksheet appended to this report.

U.S. private enterprise. Additionally, although the project is implemented by the Government of Kenya, two U.S. contractors monitor commodity purchases and one provides technical assistance. This arrangement is likely to ensure greater accountability and administrative efficiency.

The major caution in evaluating ESF expenditures is to avoid double counting of local currency generation resulting from U.S. AID's initial disbursements. Only initial dollar expenditures should be counted and classified.

3. PL 480

FY1987 expenditures in Kenya under PL 480 Title I totalled \$8,000,000 and under PL 480 Title II totalled \$1,292,000. Expenditures under both titles were made to U.S. agribusinesses to support general public service activities. Title I expenditures were devoted to balance of payment and budgetary support and Title II provided humanitarian food aid to the needy. Thus, expenditures under both were allocated to Category D5. Given the nature of the PL 480 program, this classification would be typical.

4. Centrally-Funded

There were nine centrally-funded projects involving the Kenya Mission; however, the mission had available information for only four such projects. These indicated expenditures of \$305,000 allocated entirely to supporting public sector activities. Two projects accounting for only \$14,000 were disbursed through the PVO/NGO sector (Cat.B)* and the remainder through the government (Cat. C)*. There is no indication that any of the centrally-funded programs involving Kenya have any private sector component.

* See SARS Worksheet appended to this report.

III. MALAWI PROJECT PORTFOLIO EVALUATION

U.S. AID assistance in Malawi during FY1987 totalled approximately \$19,927,000, over half of which (\$11,040,000 or 55.4%) was devoted to promotion of private sector development. None of these expenditures were disbursed directly to Malawi private sector entities to promote private sector development (All Cat. A expenditures were allocated to SubCat. 5 which accounts for humanitarian and public service activities).

The Malawi Mission portfolio for FY1987 was comprised of 16 programs, 8 of which had some component of spending designed to encourage indigenous private enterprise. These private sector programs were largely found among "development assistance" projects. Only one of six "centrally-funded" programs -- "Energy for Small and Medium Enterprises" (698-0424.12) indicated any expenditures for private sector development purposes.

The bulk of expenditures devoted to private sector development in the Malawi mission flowed through the Malawi public sector (\$7,919,000 or 71.7% of private sector expenditures were made to government entities as the initial recipients -- i.e., Cat. C)*. The remainder of private sector expenditures were made to PVOs or NGOs (28.3% was allocated to Cat. B)*.

These statistics appear to reflect in large part the development status of the country. In Malawi, there is little in the way of a private sector infrastructure which can handle direct receipt of U.S. AID funds, but the Government of Malawi is receptive to private sector development and is willing to participate in the promotion of private enterprise.

While the PVO/NGO sector is devoting its energies largely to humanitarian and public service activities (SubCat. B5 totalled \$3,481,000 accounting for 17.5% of total U.S. AID expenditures in Malawi and over half of the disbursements to PVOs/NGOs)*, it does serve as an important channel for private sector training funds under one large project -- "Polytechnic Engineering Expansion" (612-0201) which totalled \$2,441,000 in SubCategory B3* (accounting for 12.2% of total U.S. AID expenditures in Malawi).

While there is insufficient evidence to attribute the host government's apparently positive perspective

* See SARS Worksheet appended to this report.

toward private enterprise solely to U.S. AID programs and initiatives, the large share of the Malawi Mission portfolio that is dedicated to "policy dialogue" (SubCat. C4 totalled \$4,276,000 or 21.5% of mission expenditures)* would seemingly have a substantial impact on policy development decisions.

Most of this policy dialogue sum (\$4,200,000) is derived from a single ESF program "Fertilizer Subsidy Removal" (612-0225) which provides balance of payments support and technical assistance studies and training. The reduction of subsidies in this key economic sector can have broad implications for government policy on subsidies across the board.

This single ESF program also represents a goodly portion of the Malawi Mission's portfolio of expenditures promoting private sector development. Its \$4,200,000 expenditure accounts for 38% of all expenditures classified as private sector (SubCategories 1-4)*.

1. Development Assistance

The Malawi Mission funded 9 separate bilateral programs in FY1987 totalling \$11,890,000 or 59.6% of the mission's overall portfolio. These expenditures were divided fairly evenly between private sector programs totalling \$6,690,000 (56.3%) and \$5,200,000 (43.7%) dedicated to development assistance programs that served humanitarian purposes or assisted Malawi public sector activities.

Expenditures related to almost all of the Malawi Mission's 9 development assistance projects were exclusively in either the public or private sector activities with only one having a component in both. Five (5) had only private sector components and three (3) only public sector. Thus, two-thirds (6 out of 9) of the mission's development assistance projects directly encouraged private sector development.

These private sector programs dealt with expansion of SMEs (small and medium sized enterprises), training and equipment, improvements in trucking industry infrastructure, strengthening of research institutions and restructuring a parastatal. This approach of having a private sector component in many projects rather than concentrating most expenditures in a few large projects

* See SARS Worksheet appended to this report.

enhances the potential for wide-spread impacts on private enterprise throughout the host country economy.

One project "Polytechnic Engineering Expansion" (612-0201) accounted for slightly more than one-third of development assistance supporting private sector activities.

Of development assistance that was intended to promote private enterprise (\$6,690,000), a relatively large share flowed to private sector entity end-users (SubCat. 1 expenditures were \$2,911,000 or 43.5% of private sector-related development assistance). It should be noted, however, that none of these funds were disbursed directly to private sector entities (Cat. A)*.

Of expenditures designed to reach private sector end-users to promote private enterprise purposes (SubCat. 1)*, most monies flowed through government agencies (Cat. C1 totalled \$2,341,000 or 80.4%) with the remainder disbursed to PVOs and NGOs.

It should be noted, however, that a little less than half of the Category C1 expenditures were under the "Rural Enterprises and Agrobusiness Development Institutions Project" (612-0214) which disbursed \$1,050,000 to government agencies to help SME end-users expand their economic activities.

This project offered several components of spending disbursed through government entities and PVO/NGOs that could serve as a model for multi-mission application. The project's main impact is expected to be on small agro-industrial enterprises in rural areas, whose market is almost entirely domestic. Some foreign investment is expected to be generated indirectly, and a loan component is expected to lead to the establishment of 60 new businesses and 900 new jobs. While a policy dialogue impact was noted, it was apparently expected to follow as a result of the intended growth of the private sector, because no expenditures were devoted specifically to policy dialogue.

Another project, with a substantial expenditure component designed to assist private sector end-users, that has potential multi-mission applicability is "Parastatal Restructuring" (612-0227). The project is a component of a larger multilateral effort to support structural

* See SARS Worksheet appended to this report.

adjustment. Its impact is expected to be felt in the agricultural, industrial, financial and service sectors. The project should help large enterprises (over 250 employees) expand into the international marketplace as well as attract domestic and foreign investment.

While the Malawi government served as the primary conduit for most monies intended to encourage private enterprise among private sector end-users (SubCat. 1)*, overall expenditures promoting private enterprise (SubCat. 1-4)* were about equally divided between government and PVOs/NGOs entities. The slightly smaller portion (\$3,121,000 or 46.7%) of private sector expenditures (SubCat. 1-4)* was channelled through PVOs and NGOs (Cat. B)*. A slight majority of Malawi Mission development assistance funds supporting private enterprise activities (\$3,569,000 or 53.3%) were disbursed to Government of Malawi agencies (Cat. C)*.

U.S. AID disbursements to government agencies as a channel to private sector end-users (Cat. C1)* are twice as high as those intended to encourage private sector development more indirectly (Cat. C2, C3 & C4)*. Category C1 expenditures were \$2,341,000 or 66% of private sector spending channelled through the government; whereas, Category C2, C3 & C4 expenditures totalled \$1,228,000 or 34% all private sector spending disbursed to the government.

The bulk of Malawi Mission expenditures that indirectly promote private enterprise were allocated to Category B3*, which focuses on "infrastructure and training" activity. They totalled \$2,441,000, and were derived from a single project "Polytechnic Engineering Expansion" (612-0201).

This project could have far-reaching implications for Malawi development. Its purpose is to improve and expand the country's institutional capacity to produce engineers through training, construction, commodities, equipment and technical assistance. It alone accounted for slightly more than one-third of the Malawi Mission's development assistance portfolio supporting private sector activities.

It should be noted, however, that several Malawi Mission projects with smaller expenditures devoted to indirect promotion of private enterprise through programs

* See SARS Worksheet appended to this report.

that do not involve private sector end-users but that support infrastructure and training could have broad implication for the development of an indigenous private sector. They are "Rural Enterprises and Agro-Business Development Institutions" (612-0214), "Commercial Transport" (612-0218) and "Management Assistance to Rural Traders" (612-0219).

There was very little in the way of development assistance expenditures (\$76,000) devoted directly to policy dialogue promoting changes to encourage private enterprise and a market economy. These expenditures represented one component of the "Parastatal Restructuring" (612-0227) project.

However, closer scrutiny of the "Rural Enterprises and Agro-Business Development Institutions" project (612-0214) discloses that its direct and indirect assistance to the private sector is also intended to influence policy dialogue through the establishment of an investment center for investors which would help rationalize the foreign exchange system and tax structure, establish a private sector development strategy, eliminate government subsidies through partial self-financing, and reduce constraints on foreign trade, foreign investment and technology transfer.

2. Economic Support Funds

The Malawi Mission's portfolio contained one ESF project "Fertilizer Subsidy Removal" (612-0225) which provided balance of payments support and technical assistance studies and training. This project had FY1987 expenditures totalling \$4,665,000 of which \$4,276,000 was to support policy dialogue purposes (SubCat. C4)* with the remainder allocated to public sector activities.

While the technical assistance studies and training components of this project could have far-reaching effects throughout the economy on private sector development, the balance of payments aspect serves the main purpose of shoring up the economy to facilitate policy change and allow time for positive impacts to take effect. Attaining discrete goals, such as improving the fertilizer input supply system and reducing subsidies, can influence government policy-makers to apply similar approaches more broadly in the economic system.

* See SARS Worksheet appended to this report.

3. PL 480

The Malawi Mission's portfolio contained no PL 480 expenditures.

4. Centrally-Funded

There were six (6) centrally-funded projects involving the Malawi Mission totalling \$3,372,000. The private sector component of these expenditures was quite small totalling \$150,000.

All of these expenditures were in one project -- "Energy for Small and Medium Enterprises (698-0424.12). Spending to encourage private enterprise was split between Categories C1 and C3 with \$50,000 intended for end-users in the private sector (C1)* and \$100,000 for private sector training (C3)*.

The remaining projects had expenditures of \$3,222,000 supporting public sector activities, all but \$140,000 of which was disbursed to Malawi government entities (Cat. C5)*. Two projects -- "Small Project Assistance Program" (698-0506.12) and "Ambassador's Special Self-Help Program" ((698-9901) disbursed \$40,000 and \$100,000, respectively, to private sector entities for public service and humanitarian purposes (Cat. A5). The "Small Project Assistance Program" is implemented by Peace Corps volunteers to promote rural development.

* See SARS Worksheet appended to this report.

IV. RWANDA PROJECT PORTFOLIO EVALUATION

U.S. AID assistance to Rwanda during FY1987 totalled approximately \$10,495,000, only a very small portion of which (\$1,105,000 or 10.5%) was devoted to promotion of private sector development. None of these expenditures flowed directly to Rwanda private sector end-users to promote private sector development (Cat. A1)*, and only \$145,000 or 1.4% of all mission expenditures were disbursed to private sector entities for private sector development purposes (Cat. A3 & A4)*. However, there was a goodly sum disbursed directly to the private sector for humanitarian and public service purposes (Cat. A5 expenditures were \$1,347,000 or 12.8% of the mission's portfolio)*.

Interestingly, U.S. AID disbursements directly to the Rwanda private sector (totalling \$1,492,000) are only slightly less than direct aid disbursements to the Government of Rwanda (totalling \$1,697,000). The bulk of Rwanda Mission disbursements for both public and private sector purposes are made to FVOs/NGOs (Cat. B was \$3,777,000 or 36.1% of total mission portfolio)* and to U.S. private sector and third country entities (Cat. D was \$3,529,000 or 33.5% of total portfolio)*. This strategy apparently reflects the relatively undeveloped state of both Rwanda's private and public sector entities.

Considering expenditures devoted to private sector development (Cat. 1-4 total \$1,105,000)*, the predominant initial recipients are FVOs/NGOs which manage \$823,000 representing 74.5% of the Rwanda Mission's expenditures promoting private enterprise. Next are Rwanda private sector entities (\$145,000 or 13.1%), followed by U.S. private sector and third country entities (\$82,000 or 7.4%), with Rwanda government entities receiving the smallest share of monies dedicated to private sector development (\$55,000 or 5%).

The Rwanda Mission portfolio for FY1987 was comprised of 21 programs, 8 of which had some component of spending designed to encourage indigenous private enterprise. These private sector programs were largely found among the eleven (11) "development assistance" projects. Only one of nine (9) "centrally-funded" programs indicated any expenditures for private sector development purposes.

* See SARS Worksheet appended to this report.

As discussed above, the bulk of expenditures devoted to private sector development in the Rwanda Mission flowed through the PVO/NGO sector (\$823,000 or 74.5% of private sector expenditures were made to non-profit entities as the initial recipients -- i.e., Cat. B)*. These were mostly U.S. non-profit organizations and universities.

Given the state of development in Rwanda, such U.S. entities may be among the best vehicles for private sector development programs. An assumption can be made that these organizations adhere to "generally accepted accounting principles," apply U.S. management skills and are more easily susceptible to U.S. AID oversight than host country institutions.

It should be reiterated that although these private sector expenditures channeled through PVOs and universities represent a large amount of the mission's private sector spending, they comprise a minuscule portion of the entire Rwanda Mission portfolio (\$823,000 or 7.8% of all expenditures). The PVO/NGO sector has devoted its energies largely to humanitarian and public service activities. SubCategory B5 totalled \$2,954,000 which was almost four (4) times the expenditures in SubCategories B1-B4*.

Only a very small amount of the Rwanda Mission portfolio is dedicated to "policy dialogue" (SubCat. 4 totalled \$199,000 or 1.9% of mission expenditures and 18% of its expenditures allocated to private sector development)*. Careful evaluation of Rwanda's development level and analysis of program impact would be necessary to determine the effectiveness of policy dialogue efforts.

Most of this policy dialogue sum (\$184,000) is derived from a single ESF program "Policy Reform Initiative" (696-0127) which is expected to have an impact on all sectors, especially SMEs and enhancement of domestic and regional market opportunities. While FY1987 expenditures were small, the LOP figures are expected to be \$12,000,000. In the long-run, this ESF project focussed on policy dialogue is expected to create 5 new businesses and 100-500 new jobs per year.

* See SARS Worksheet appended to this report.

1. Development Assistance

The Rwanda Mission funded 9 separate bilateral programs in FY1987 totalling \$5,199,000 or a little less than half of the mission's overall portfolio. These development assistance expenditures were largely dedicated to programs that served humanitarian purposes or assisted Rwanda public service activities (SubCategory 5 totalled \$4,444,000 accounting for 85.5% of development assistance expenditures).

Private sector development assistance programs totalled \$755,000 which represented 68.3% of the Rwanda Mission's spending devoted to private sector development. Six (6) of the Rwanda Mission's ten (10) development assistance projects had spending components in both public or private sector activities with only one having a component in both. Two (2) had only private sector components and four (4) only public sector. The private sector programs were focused on increasing agricultural production for market and otherwise strengthening commercial agriculture research, training and infrastructure.

One project "Private Enterprise Development" (696-0121) with \$431,000 in expenditures accounted for more than half of development assistance supporting private sector activities. Under this project, \$416,000 was disbursed to a PVO to provide Rwanda enterprises with technical assistance and training. An additional \$15,000 was devoted to policy dialogue aimed at improving the environment for private sector growth (Cat. 1-4)*. This is the mission's only policy dialogue expenditure other than those through ESF program expenditures discussed in detail below.

Another project "Cooperative Credit and Training" (696-0122) with \$82,000 in expenditures was the only other development assistance project that was intended solely to promote private enterprise. The SARS classification of this project is an anomaly, because contrary to the general definition for SARS purposes Agency-wide, that cooperatives are non-profit enterprises and fall into Category B*, cooperatives in Rwanda are considered profit-making entities more closely related to the private sector.

This demonstrates the need to reiterate that there can be exceptions to SARS definitions, in which case a rational allocation should be made but explained. The system is designed to contemplate such anomalies through

* See SARS Worksheet appended to this report.

the use of "clarifying comments" in Column 4 of the SARS Form.

The only other project with a significant private sector component that is noteworthy is "Fish Culture" (696-0112) with \$88,000 for infrastructure and training purposes (Cat. B3)*. While this private sector component was limited to technical assistance, there is a larger public service component of spending (SubCat. 5 expenditures were \$258,000) that could ultimately accrue to the encouragement of private enterprise. The approach taken should be considered for multi-mission application.

The overall goal of the "Fish Culture" project is privatization, and using market approaches, yields of fish have tripled. These results could influence government policy and other program decisions. This project also illustrates how given the development level of a host country, public sector expenditures can be designed to influence private sector development.

As discussed above, the vast majority of development assistance funds to the private sector (SubCat. 1-4)* was channelled through PVOs and universities (Cat. B)*. These expenditures totalled \$723,000 or 95.8% of development assistance expenditures promoting private enterprise.

2. Economic Support Funds

The Rwanda Mission's portfolio contained one ESF project "Policy Reform Initiative" (696-0127) with \$184,000 in expenditures, all of which was allocated to policy dialogue activities. This project is only one of two showing any disbursements (\$18,000) directly to initial recipients in the private sector for the purpose of promoting private enterprise.

These ESF monies were channelled through the PVO/NGO sector (Cat. B)* and through U.S. private enterprises (Cat. D)*, but not through Rwanda government entities (Cat. C)*. The Rwanda Mission's ESF expenditures are dedicated to policy reform with goals of promoting growth of SMEs, rationalizing Rwanda's foreign exchange regime, reducing the fiscal deficit, expanding the tax base, and reducing the role of parastatals.

On the surface, it seems that the Rwanda

* See SARS Worksheet appended to this report.

Mission's ESF program is results-oriented in terms of influencing broad change in the economy. The program attempts to avoid short term objectives, such as merely shoring up the economy to facilitate policy change. It attempts to allow time for positive impacts to take effect.

This ESF program may have broader application than just Rwanda. The approach taken could have multi-mission application. The project is designed to impact all sectors, targeting SME's in rural and urban locations, in particular. The project is also intended to affect a wide-range of business climate issues. Discrete goals include market development and the creation of five (5) new businesses and 100-500 new jobs annually.

3. PL 480

FY1987 expenditures in Rwanda under PL 480 Title II totalled \$2,844,000. Expenditures were made to purchase commodities from the U.S. private sector (Cat. D)* for the purpose of providing humanitarian food aid to the needy. There was also some effort to increase local food production through training and education. Typical of the PL 480 program, these expenditures were all classified as humanitarian or public service (SubCat. 5)*.

4. Centrally-Funded

There were nine (9) centrally-funded projects involving the Rwanda Mission with expenditures totalling \$2,268,000. The private sector component of these expenditures was very small totalling \$166,000 or 7.3% of all centrally-funded expenditures.

Spending intended to promote private enterprise was concentrated in two projects --"African Manpower Development II" (698-0433.23) and "Ambassador's Special Self-Help Program" (698-9907). Expenditures for "African Manpower Development II" were \$39,000 for training through a government entity (Cat. C3)*. Expenditures for "Ambassador's Self-Help" totalled \$127,000 for a variety of special projects through a local cooperative for infrastructure development and employment opportunities (Cat. A3)*.

One centrally-funded project that may deserve broader attention is the "Gituza Forestry" program (698-

* See SARS Worksheet appended to this report.

0502/02) with \$764,000 in expenditures. Although these monies were classified for FY1987 as humanitarian in nature to help refugees meet fuel requirements (Cat. C5)*, they have other components that will increase domestic investment and promote a more positive business environment. The stove manufacturer that is now being supported may be self-sustaining at PACD. Given the development conditions in Rwanda, this sort of project that establishes a base for private enterprise may be more useful than more distinctly private sector programs that might be premature.

* See SARS Worksheet appended to this report.

V. SENEGAL PROJECT PORTFOLIO EVALUATION

U.S. AID assistance in Senegal during FY 1987 totalled approximately \$39,199,000, 41.3% of which (\$16,191,000) was devoted to promotion of private sector development. None of these expenditures flowed directly to private sector entity end-users for the purpose of promoting private sector development (All Cat. A expenditures were allocated to SubCat. 5 which supports humanitarian and public service activities).

The Senegal Mission portfolio for FY1987 was comprised of 32 programs, six of which had some component of spending designed to encourage indigenous private enterprise. These private sector programs were distributed with one in "development assistance," and two in ESF, one Africa Economic Policy Reform Program; with two in PL 480. There were no expenditures encouraging private enterprise among the Senegal Mission's twelve (12) "centrally-funded" programs.

The bulk of expenditures devoted to private sector development in the Senegal Mission (\$13,622,000) were disbursed to Senegal Government agencies for policy dialogue purposes (Cat. C4)* under the \$6,000,000 ESF program "Economic Policy Reform Program I" (685-0291) and under the PL 480 Title I Program (\$7,622,000). A large part of the remainder (\$1,609,000) also was focused on policy dialogue, but expenditures were disbursed to U.S. private sector entities (SubCat. D4)* under Title I of the PL 480 program. These programs alone accounted for 94.1% of the Senegal Mission's private sector portfolio of expenditures. The remaining \$920,000 in expenditures intended to encourage private sector development was disbursed under a single development assistance project.

Review of expenditures in the mission's public sector portfolio indicates that most were devoted to wide-ranging basic institution building in agricultural research, reforestation and soil conservation, irrigation and water management, water resources development, technology transfer, and health services.

1. Development Assistance

The Senegal Mission funded 12 separate bilateral projects in FY1987 totalling \$8,805,000 or 22.5% of the

* See SARS Worksheet appended to this report.

mission's overall portfolio. Development assistance expenditures were largely in support of public service and humanitarian activities (SubCat. 5)* with only 10.5% (\$920,000) devoted to private sector development.

These latter expenditures devoted to private sector purposes were all contained in a single project "Community Enterprise Development" (685-0260) which supported an employee-owned lending institution providing credit to small enterprises. This project could have far greater impact on the Senegalese politico-economic system than its expenditure level, for both public and private sector activities, would indicate. Thus far the operation has made 300 loans of about \$4000 each at 24% rates of interest. It is expected to become self-sustaining with a loan portfolio of \$800,000 to \$1,000,000. The current portfolio is about \$600,000. This project may demonstrate to host government officials that small entrepreneurs can build and manage commercial operations that enable them to profit and to repay their loans.**

2. Economic Support Funds

The Senegal Mission's portfolio contained two (2) ESF projects totalling \$7,000,000 in expenditures and one "African Economic Policy Reform Program I" (685-0291) totalling \$6,000,000 which were cash transfers to promote policy dialogue on economic liberalization, including privatization of agricultural input marketing, fiscal reform, as well as to promote reform in Senegal's tax, customs and tariffs systems, real estate laws and investment code. The program's entire FY1987 expenditure was allocated to policy dialogue activities (Cat. C4)*.

* See SARS Worksheet appended to this report.

** The mission argues that at least two other development assistance projects are devoted to private sector purposes. Project 685-0250 (Millet Transformation) financed studies of processes to promote increased commercial demand for locally-grown millet. The project was rated D5 by KMA, as the possible connection between the new products and increased commercialization of local cereals was considered to be tenuous. Project 685-0280 (Irrigation and Water Management) was designed to improve village irrigated farming by development of private companies capable of construction and maintenance of irrigation systems. The project expenditures were classified as C5 and D5 by KMA because "village level farming" is taken to be subsistence farming.

3. PL 480

FY1987 expenditures in Senegal under PL 480 Title I totalled \$9,271,000 and under PL 480 Title II totalled \$2,677,000. An additional PL 480 expenditure of \$2,000 was made for emergency transport of food.

The bulk of PL 480 expenditures under Title I were considered to be part of policy dialogue efforts to promote private sector development through conditional transfers to the host government (SubCat. C4 totalled \$7,662,000)*. A smaller share of those expenditures were policy dialogue effort in which the initial recipients were U.S. private sector entities. The purpose of this portion of the expenditures was to promote cereals market restructuring (SubCat. D4 totalled \$1,609,000)*. These expenditures represented 57.2% of the Senegal Mission's expenditures devoted to private sector development.

They provide a rare instance of PL 480 expenditures spent for the purpose of promoting indigenous private enterprise. The approach used deserves closer scrutiny to see if it has multi-mission application. Expenditures under Title II provided humanitarian food aid to poor mothers and children.

4. Centrally-Funded

There were twelve (12) centrally-funded projects involving the Senegal Mission totalling \$5,446,000. None involved any expenditures intended to promote private sector development.

* See SARS Worksheet appended to this report.

VI. MALI PROJECT PORTFOLIO EVALUATION

U.S. AID assistance in Mali during FY 1987 totalled approximately \$28,036,000, one-third of which (\$9,521,000 or 34%) was devoted to promotion of private sector development. Few of these expenditures flowed directly to Mali private sector entities for the purpose of promoting private sector development. Expenditures of \$944,000 to develop infrastructure and provide training were disbursed to indigenous private sector entities (Cat. A3)*. This represented 9.9% of private sector spending and 3.4% of the mission's total portfolio.

The remainder of monies disbursed directly to the private sector were allocated to SubCategory A5* which reports expenditures dealing with humanitarian and public service activities. Given the state of conditions in Mali and the relative absence of a private sector, it would be expected that humanitarian and public service programs would account for the predominant share of U.S. AID funding (SubCat. 5 totalled \$18,515,000 or 66% of total expenditures).

The Mali Mission portfolio for FY1987 was comprised of 24 programs, 7 of which had some component of spending designed to encourage indigenous private enterprise. Three (3) private sector programs were in "development assistance" and three (3) in the "centrally-funded" portfolio. These accounted for \$859,000 and \$509,000 in expenditures, respectively, totalling \$1,368,000 or 14.4% of all private sector expenditures.

A single ESF program, however, accounted for the vast majority of expenditures intended to promote private sector development (\$8,000,000 or 83.6% of private sector expenditures). This large proportion of expenditures under a single ESF program also explains why the bulk of expenditures devoted to private sector development flow through the Mali public sector (\$8,000,000 or 84% of private sector expenditures were made to government entities as the initial recipients -- i.e., Cat. C)*.

The remainder of private sector expenditures were channeled through private sector entities (\$944,000 in Cat. A)*, followed by the U.S. private sector (\$603,000 in Cat. D)*. A relatively small share of private sector development funds were channeled through FVOs/NGOs/Universities (\$424,000 in Cat. B)*.

* See SARS Worksheet appended to this report.

This rather unusually heavy reliance on private sector entities as a conduit for U.S. AID funds vis-a-vis PVOs/NGOs in such an undeveloped country may reflect an attempt by the Mali Mission to go to greater lengths than elsewhere to promote private enterprise notwithstanding conditions in the host country. Even with regard to humanitarian and public service expenditures, a relatively large portion of the mission's portfolio is disbursed to private sector entities and individuals (SubCat. A5 totalled \$3,255,000 or 17.6% of SubCat. 5). The impact of these U.S. AID programs on Mali private sector development should be closely monitored to see if results are better than would normally be anticipated.

With respect to "policy dialogue" expenditures, the single ESF program again represented the sole source of monies for those purposes. SubCategory C4 totalled \$4,000,000 or 42% of private sector development spending and 21.6% of all FY1987 mission expenditures)*. Such a large portion of funding focused on policy dialogue would seemingly have a substantial impact on policy change.

1. Development Assistance

The Mali Mission funded 11 separate bilateral programs in FY1987 totalling \$8,857,000 or 47.8% of the mission's overall portfolio. Few of these funds were devoted to private sector projects of which there were three (3) totalling \$859,000 or 9.7% of development assistance program expenditures.

Private sector expenditures associated with all three (3) of these development assistance projects were devoted primarily to "Infrastructure and Training" activities (SubCat. 3 totalled \$797,000)*, but a small portion was channelled through a PVO and an NGO to private sector end-users (SubCat. B1 totalled \$62,000)*.

Under the "Operation Haute Vallee" project (688-0210), \$323,000 was allocated for farm-to-market road building. Other activities under this project included credit extension and considerable technical assistance for planning and financial management. Together its diverse activities could provide a handle for encouraging greater, more broadly-sweeping private sector growth opportunities.

The other two (2) projects involved expenditures to support private sector training. One of these, "VITA

* See SARS Worksheet appended to this report.

Woodstoves" (688-0237), is particularly noteworthy for its potential multi-mission application. In addition to training expenditures of \$295,000 (SubCat. B3)*, this was also the only project in the Mali Mission's portfolio that provided monies to private sector end-users engaged in private enterprise activities (SubCat. B1 was \$62,000).

The "VITA Woodstoves" project represents an attempt to reduce scarce fuelwood consumption through the use of improved portable woodstoves. The woodstove fabricators are trained in tooling, development and sales. The project has created six (6) new businesses and an equal number of new jobs, three (3) of which have been sustained without continued support.

These sums may seem minuscule in comparison to other U.S. AID programs, but considering conditions in Mali, it is an achievement. Given similar scarcity of fuelwood in other countries, the VITA Woodstoves project, as implemented in Mali, might provide an approach both to address the fuel problem, which is essentially humanitarian, but also offer the lowest classes an opportunity to become small entrepreneurs.

2. Economic Support Funds

The Mali Mission's portfolio contained one ESF project "Economic Policy Reform Program" (688-0240) which could have broad impacts on private sector development in Mali. Project purposes included providing an environment for growth and employment in the private sector; fiscal reform, lower tax rates and improved tax collection; reducing the public sector burden through early retirement of civil service employees; restructuring of commercial codes to encourage private sector involvement; and privatization efforts.

This program had FY1987 expenditures totalling \$9,003,000 of which \$4,603,000 was used to support policy dialogue purposes (SubCat. C4)* and \$4,000,000 intended to promote private enterprise indirectly (SubCat. C2)* with the remainder allocated to public sector activities.

This single ESF program represents over 90% of the Mali Mission's portfolio of expenditures promoting private enterprise with its private sector components alone accounting for 30.7% of total mission expenditures.

* See SARS Worksheet appended to this report.

It also provides the only funds allocated by the mission to policy dialogue (SubCat. 4)* and expenditures intended to promote private sector development indirectly (SubCat. 2)*. These latter expenditures are underwriting the early retirement of civil servants and could result in many of them being inclined to engage in private enterprise activities. This effort could have sweeping implications across the economy, not only because it introduces a large number of educated and experienced persons into the private sector, but because other policy changes will be necessary for them to engage in their professions.

For example, two former government veterinarians have been approached to serve as local agents for an American veterinary supply company, but this function is in the exclusive domain of the Mali Government. The mission is already engaged in policy dialogue to influence change in legal restrictions. The large number of retired civil servants are likely to introduce pressures for similar policy changes on a number of fronts.

Given the bloated public sector entities that are commonplace in many lesser developed countries, this program may have multi-mission application and should be scrutinized closely to assess its longer term implications for private sector development.

3. PL 480

FY1987 expenditures in Mali under PL 480 Title II (Section 206) totalled only \$225,000. Expenditures were made to purchase commodities from the U.S. private sector to provide emergency humanitarian food aid (Cat. D5)*.

4. Centrally-Funded

There were eleven (11) centrally-funded projects involving the Mali Mission totalling \$10,100,000. The private sector component of these expenditures was \$509,000. This sum represented only 5% of centrally-funded expenditures, and about the same share (5%) of the Mali Mission's portfolio of private sector expenditures.

While the private sector portion of centrally-funded projects was small, it was unusual in the sense that four (4) of the eleven (11) projects had some private

* See SARS Worksheet appended to this report.

sector component. Furthermore, most of these expenditures were disbursed directly to private sector entities for training purposes (SubCat. A3 totalled \$442,000) with the remainder of \$67,000, also for training, disbursed through a FVO (SubCat B3).

VII. AFRICAN PROJECT SYNTHESIS

It is appropriate to raise a note of caution about over generalizing from the sample of experiences reported in these five missions. The data represents only a small share of the total Africa portfolio. As discussed in the "Introduction," the appropriate allocation of expenditures to encourage private sector development can best be determined on a country-by-country basis dependent on levels of development and other indigenous conditions.

However, a few observations are quite apparent from the analysis of these five mission portfolios. They may have broader application to Africa Bureau decision-making as a whole.

1. Initial Recipients

The following chart shows the allocation of initial disbursements among the four SARS categories:

CHART 1

<u>Category</u>	<u>Total</u>	<u>% Total</u>	<u>Private Sector Amount</u>	<u>% Private Sector</u>	<u>% of All Private Sector</u>	<u>Priv. Sect % of All Expenditures</u>
A (priv sect):	\$7,036,000	5.8%	\$1,238,000	17.6%	2.4%	1.0%
B (FVO/NGO/Un:	\$18,081,000	14.9%	\$4,395,000	24.3%	8.6%	3.6%
C (publ sect):	\$61,563,000	44.3%	\$31,173,000	50.1%	60.1%	25.4%
D (US/othpriv:	\$34,995,000	35.0%	\$14,378,000	41.1%	28.1%	11.8%

These figures unequivocally demonstrate that host country public sector entities (Cat.C) are the predominant recipient of U.S. AID disbursements both overall and in connection with programs devoted to promoting private sector development. Interestingly, nearly half (50.1%) of these direct disbursements to host government entities (Cat. C) are devoted to private sector purposes; whereas, it appears that expenditures disbursed directly to private sector entities (Cat.A) are largely to provide humanitarian assistance.

It should be noted that the \$14,378,000 in expenditures disbursed to U.S. and other country private sector entities (Cat. D) to promote private enterprise in the selected African missions were concentrated largely in a single ESF program in Kenya -- "Structural Adjustment Program Grants" (615-0213) -- which accounted for \$9,643,000 allocated to SubCategory D1.

Furthermore, \$21,898,000 of the \$31,173,000 in expenditures disbursed directly to host country governments by U.S. AID to encourage private enterprise development was for policy dialogue purposes (Cat. C4).

2. Intended Purpose

The following chart shows how the above-described disbursements were applied in terms of end-user and/or intended purpose according to the SARS SubCategories:

CHART 2

<u>SubCategory</u>	<u>Total</u>	<u>% of All Private Sector</u>	<u>% of All Expenditures</u>
1 (priv. sect. end-user & purpose):	\$14,369,000	28.1%	11.8%
2 (priv. sect. purpose) :	\$6,863,000	13.4%	5.6%
3 (priv. sect. Infrastrctr & Trng):	\$5,693,000	11.2%	4.6%
4 (priv. sect. policy dialog) :	\$24,313,000	47.5%	20.0%
5 (public service & humanitarian) :	\$70,491,000	--	57.9%

Expenditures devoted to encouraging private sector development (SubCat. 1-4) in the selected African missions totalled \$51,238,000 which accounted for 42.1% of all expenditures during FY1987 (\$121,675,000).

As can be observed from CHART 2, expenditures supporting private sector end-users (SubCat. 1) and policy dialogue (SubCat. 4) were predominant; however, these figures should be considered in light of the extent to which they were distributed among projects.

For example, a single ESF program in Kenya -- "Structural Adjustment Program Grants" (615-0213) -- alone accounted for \$9,643,000 allocated to SubCategory D1.

Similarly, three large programs, one each in Malawi (\$4,200,000), Mali (\$4,000,000) and Senegal (\$6,000,000), together accounted for \$14,200,000 in policy dialogue expenditures (SubCat. 4).

As noted in the discussion of CHART 1 above, fully \$14,276,000 of the \$16,691,000 in expenditures allocated to SubCategory 4 pertaining to policy dialogue were disbursed by U.S. AID directly to host governments (Cat. C4).

3. Allocation by Program

The following chart shows how the expenditures were distributed among the four program categories -- Development Assistance, Economic Support Funds, Centrally-Funded and PL 480:

CHART 3

<u>Program</u>	<u>Program Expenditures</u>	<u>Private Sector Portion</u>	<u>% of Program Private</u>	<u>Program % of All Private</u>	<u>Program Private Sector % of Total Expendtrs</u>
Devlpmnt Asstnc:	\$43,161,000	\$12,438,000	28.8%	28.6%	9.9%
Econ Supt Funds:	\$36,743,000	\$28,660,000	78.0%	65.8%	22.8%
Centrally-Funded:	\$21,491,000	\$839,000	3.9%	1.9%	0.7%
PL 480	: \$24,309,000	\$9,231,000	38.0%	18.0%	7.6%

Although Development Assistance projects account for the largest single group of expenditures (\$43,161,000), only about 28.8% of these expenditures (\$12,438,000) are devoted to promoting private enterprise.

ESF program expenditures, on the other hand, are slightly less in the aggregate (\$36,743,000), but represent 78% of expenditures devoted to private enterprise development purposes (\$28,660,000). Thus, the ESF program provided the source of more than twice the amount of expenditures allocated to the private sector in the selected African missions during FY1987 as through Development Assistance.

However, as noted in the individual mission portfolio analyses, Development Assistance funds constitute a component of numerous small projects. ESF expenditures

are concentrated in a few very large projects.

From CHART 3 on the preceding page, it is apparent that the contribution in terms of expenditures promoting private sector development through Centrally-Funded and PL 480 programs is substantial. The use of these programs to promote private enterprise through policy dialogue represents significant opportunities. However, care will have to be exercised to insure that the private sector objectives are clearly defined and monitored. The specific program groups summarized here are discussed individually below.

A. Development Assistance

The majority of individual projects encouraging private sector development are found in development assistance programs. While most of these projects must be uniquely tailored to a given mission, some conceptually may have application to several missions. These projects with so-called potential "multi-mission" applicability have been described under the appropriate mission portfolio and are listed in the section following on "Strategic Recommendations".

Most mission development assistance projects are almost entirely devoted to promoting either private sector or public sector purposes. Some combine components of each. This latter approach could offer greater advantages for the promotion of private enterprise, because it makes private sector development thinking more pervasive throughout a given portfolio.

Such an approach forces project officers to consider ways that traditionally public service and humanitarian programs can also serve private sector development needs. Otherwise, there may be a tendency to view certain activities as solely involving only one sector leading to compartmentalized thinking on the private sector aspects of a portfolio.

Typically, expenditures under a single development assistance project are relatively small, but in the aggregate can become substantial. It is difficult to say whether development assistance is the "predominant means" of promoting private enterprise in African missions. In terms of number of projects, it is, but in terms of dollars, it clearly runs second to ESF (see CHART 3).

One advantage of development assistance projects might be that they are frequently designed with components

that promote private sector development in diverse and multiple ways -- i.e., through all four subcategories; whereas, ESF expenditures are generally focused on policy dialogue (SubCat. 4) activities, from which hopefully private sector development results will follow.

While policy dialogue activities are essential and can have widespread impacts throughout a host country's economy, many incremental changes in the way the private sector operates as a result of SubCategory 1-3 expenditures may lead the way for policy changes to reflect the reality of a growing private sector. It is difficult to say which approach is better in the abstract, but the possibility that policy change made be forced by the realities of private sector growth should be considered a possibility. It is through the many and diverse development assistance projects that this widespread structural change is most likely to occur.

Ultimately, the real measure of which program -- Development Assistance or ESF -- is the "predominant means" of promoting private sector development would have to be based on results. As discussed in the "Introduction & Methodology," measuring results would require data collection and analysis far beyond the scope and purpose of SARS.

B. Economic Support Funds

ESF programs are few in number, but every mission portfolio evaluated had at least one. ESF expenditures were allocated primarily to private sector programs and they constituted the largest share of the private sector portion of a mission's portfolio.

The tendency for ESF projects to be large vs the relatively small size of projects in other programs, e.g. Development Assistance raises the question of optimum project sizing for private sector development purposes.

In addition to questions of effectiveness associated with optimum project sizing, there are also effectiveness questions associated with policy dialogue projects, that are frequently found in ESF. Are policy dialogue projects really promoting private enterprise development, or merely stopgap efforts to shore up the host country's economy? The answers to both sets of questions depend upon systematic assessments of project effectiveness, conducted over suitably long periods of time. Such assessments are beyond the scope and purpose of SARS.

C. PL 480

With the exception of the program in Senegal african mission PL 480 programs, as currently designed, have few components to promote indigenous private enterprise; rather their intent is primarily to provide humanitarian food aid. However, PL 480 serves to help the U.S. private sector from which these commodities are purchased. The Senegal Mission's use of these expenditures for policy dialogue to promote the private sector is imaginative.

The FY1987 expenditures in Senegal under PL 480 Title I totalled \$9,271,000 and under PL 480 Title II totalled \$2,677,000. An additional PL 480 expenditure of \$2,000 was made for emergency transport of food.

Senegal Mission expenditures under PL 480 Title I were the only ones allocated to private sector development purposes. They were divided between conditional disbursements to the host government to promote private sector objectives (SubCat. C4 totalled \$7,662,000). Other policy dialogue was achieved through purchases from U.S. private sector entities (SubCat. D4 totalled \$1,609,000).

This rare instance of PL 480 expenditures being used for private sector purpose illustrates that, through creative program design, even the PL 480 program offers ways to encourage private sector growth.

D. Centrally-Funded

Centrally-Funded projects are of negligible consequence in terms of private sector development expenditures. In all mission portfolios, the centrally-funded portions were dedicated largely to public service and humanitarian assistance projects.

The Mali Mission, however, has several centrally-funded projects that were designed with private sector components. The expenditure levels of these projects, were quite small.

The tendency for centrally-funded projects to be oriented toward humanitarian and public service purposes may correspond with the missions of the program offices with which these expenditures are associated, e.g. health

and family planning. However, there may be opportunities for including a greater private sector emphasis in some centrally-funded projects, particularly those focused in agriculture, science and technology.

Clearly, there is no inherent reason that centrally-funded projects could not be utilized to promote private enterprise. Systematic thinking in terms of how a given project might influence private sector development -- for the better or worse -- would be helpful in this regard.

VII. STRATEGIC RECOMMENDATIONS

Numerous AID personnel, in the field and in Washington have commented on the SARS and its objectives. KMA & Associates has accumulated considerable experience from analyzing FY1985 expenditures, from conducting the development of the SARS during FY1987, and from the collection, compilation, and analysis of data on the current project portfolios. On the basis of these inputs and experience the following actions are recommended:

1. Bureau guidance on country strategies, projects and budgets should be more specific concerning use of U.S. resources to promote discernible results in terms of new economic activity and changes in policies/regulations conducive to private sector growth. More explicit guidance should encourage innovative thinking in the design of projects to ensure that opportunities for private sector development are recognized and incorporated as components. More specific training of direct hire staff should also be offered to assure their effectiveness in undertaking or supervising such design work.

The effectiveness of diffused efforts involving the incorporation of "private sector development" components in a wide variety of projects should be explored. The alternative large scale concentrated programs do not necessarily guarantee success. The use of multiple diverse projects, each containing a private sector component might have more resounding impact overall than a single, more-focused effort.

Particularly noteworthy in regard to "innovative thinking" was the "Private Sector Family Planning" (615-0223) project in Kenya which provides \$1,336,000 in support for family planning services through private sector organizations. Another, under various titles in different missions -- the "VITA Woodstoves" (688-0237) in Mali, the "Gituza Forestry" (698-0502/02) in Rwanda -- incorporated a private sector component (entrepreneurial and technical training) into a project whose primary purpose, reducing the consumption of scarce wood resources, was essentially public service in nature.

2. Both PL 480 and Centrally-Funded programs provide very little in the way of expenditures to promote private enterprise. Senegal PL 480 is an example of how this program can be used to promote the opening of entire areas of food related activities to the private sector. With respect to PL 480, it is clear from the Title I project in Senegal that it is possible to incorporate a private sector component in what is traditionally a program focused heavily on humanitarian and public service activities.

The Africa Bureau should review the PL 480 programs of other bureaus to see if there are additional ways to offer opportunities for private sector development through PL 480, particularly in promoting private sector operations, policy dialogue and market changes involving the U.S. private sector.

Similarly, the "Gituza Forestry" project (698-0502/02) in Rwanda demonstrates how private sector components can be better incorporated in Centrally-Funded programs through more focused thinking. A systematized approach for examining Centrally-Funded programs in assessing their potential impacts on private sector development could serve to achieve more innovative thinking.

3. ESF programs, in particular, need to be more precisely designed to ensure that their frequently large expenditures are definitely allocated to private sector goals. There often appears to be a temptation to use ESF to shore up the economies of host countries. These purposes may overshadow policy dialogue objectives focused on private sector development.

Closer scrutiny of ESF expenditures will at least allow U.S. AID to know what goals such expenditures are in reality devoted to.

4. With regard to "policy dialogue," in particular, the Africa Bureau should evaluate outputs of policy dialogue expenditures to determine if accomplishments merit the high

dollar expenditures involved.

Although policy dialogue expenditures may take several years to register an impact, it would not be premature to review expenditures in past years to assess their success in promoting a healthier environment for growth of private enterprise. Such an assessment could be helpful in evaluating the effectiveness of development assistance and other expenditures in promoting policy reform.

5. Commodity Import Purchase (CIP) programs should be considered in host countries where they can best be utilized. These expenditures can provide a dual benefit to both indigenous and U.S. private sector entities. The "Structural Adjustment Program Grants" (615-0213) program in Kenya is a case in point.

6. African missions should consider ways to make greater utilization of the U.S. private sector as a means of encouraging an indigenous private sector.

In Mali, for example, the mission uses U.S. Jeep vehicles and had mechanics specially trained to maintain and repair them. While mission operating funds rather than program funds were used to finance the purchases and training, the impact on local private sector development could be the same.

If U.S. AID made a commitment to "Buy American" to the greatest extent practicable and used its policy dialogue levers to seek equal treatment from host governments to facilitate U.S. imports in exchange for U.S. assistance, it may be possible to encourage U.S. private sector companies to institute a maintenance and servicing infrastructure that could act as a catalyst for indigenous entrepreneurs.

7. There should be some method for mission personnel to examine systematically a prospective project design and anticipate the expected results both positive and negative in terms of private sector development, including policy/regulatory change. This may require

training of U.S. staff in private sector analysis and planning. USAID should consider providing financial cash flow analysis training, general business planning, and design training.

In so doing, there may be an enhanced opportunity for them to see how individual project components can be structured to promote private sector development more broadly throughout the host country's economy.

8. Similarly, mission managers should have a means to review private sector outputs resulting from each project's expenditures and to assess progress of host country governments in satisfying the policy reform conditions subsequent to U.S. AID expenditures (e.g., reduction in subsidies, elimination of parastatals, loosening of import and export controls, etc.).

Such assessment mechanism should be designed to provide a rapid means of analysis, yet require a minimum of administrative burden. Again, special tailored private sector training for senior mission management should be provided to assure that senior mission staff is able to play this role.

9. The Africa Bureau has an opportunity to review both FY1987 and FY1988 project portfolios practically simultaneously. While two years does not make a trend, comparing two years worth of data can strengthen the conclusions that are drawn.

The African missions will be completing SARS for FY1987 expenditures in September-October 1988. During field testing of SARS, the missions recommended completion of SARS reports for the preceding fiscal year in November. The familiarity of mission personnel with the SARS process and the recent closing of books for FY1988 should facilitate the FY1988 SARS analysis if its completion is required in November of 1988.

10. Projects With Potential Multi-Mission
Application

The potential multi-mission applicability of the following projects have been discussed in detail in the descriptions of individual mission portfolios, Sections II-VI. They are outlined here as a focal point of attention:

- A. Kenya -- "Private Sector Family Planning" (615-0223) DA.
- B. Kenya -- "Rural Private Enterprise" (615-0220) DA.
- C. Malawi -- "Rural Enterprises and Agrobusiness Development Institutions" (612-0214) DA.
- D. Malawi -- "Parastatal Restructuring" (612-0227) DA.
- E. Rwanda -- "Fish Culture" (696-0112) DA.
- F. Rwanda -- "Policy Reform Initiative" (696-0127) ESF.
- G. Rwanda -- "Gituza Forestry" (696-698-0502/02) Centrally-Funded.
- H. Senegal -- "PL 480 Title I".
- I. Mali -- "Operation Haute Vallee" (688-0210) DA.
- J. Mali -- "VITA Woodstoves" (688-0237) DA.
- K. Mali -- "Economic Policy Reform Program" (688-0240) ESF.