SUPPLEMENTAL APPROPRIATIONS SPENDING PLAN

FISCAL YEAR 2009

DEPARTMENT OF STATE & U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

(Section 1105 Global Financial Crisis)

FY 2009 SUPPLEMENTAL APPROPRIATIONS SPENDING PLAN
SECTION 1105 GLOBAL FINANCIAL CRISIS

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FY 2009 SUPPLEMENTAL APPROPRIATIONS SPENDING PLAN
SECTION 1105 GLOBAL FINANCIAL CRISIS

Pursuant to section 1105 of P.L. 111-32, the Supplemental Appropriations Act, 2009, the Department hereby submits its report detailing planned expenditures for funds appropriated in the Act for the purposes of assistance for vulnerable populations in developing countries severely affected by the global financial crises available to the Department of State and the U.S. Agency for International Development.

This report also serves as notification for the programs funded in the Act including notification in accordance with section 1104(b) of the Act, section 634A of the Foreign Assistance Act of 1961, section 34 of the State Department Basic Authorities Act of 1956, and section 7015 of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2009 (Div. H, P.L. 111-8), and any other relevant notification requirements. Where appropriate, funds included in this report will be made available only after applicable conditions or requirements are satisfied.

RESOURCE SUMMARY

($ in thousands)

Account	FY 2009 Supplemental
Economic Support Fund	**243,646**
Development Credit Authority	**11,955**
Total, Foreign Operations	**255,601**

($ in thousands)	Total	P&S	GJD	IIP	EG	HA
TOTAL	**255,601**			**78,500**	**177,101**	
Economic Support Fund	**243,646**			**78,500**	**165,146**	
Development Credit Authority	**11,955**				**11,955**	

Overview:

The global financial crisis is severely affecting extremely poor and vulnerable populations in a wide range of developing countries. These negative impacts threaten to reverse recent development progress, including the gains from large U.S. foreign assistance investments, and to de-stabilize countries that share common interests with the United States and are key international partners. It represents a serious short-term threat to U.S. national security interests.

The rapid collapse of currency values, bank lending, trade flows, remittances, and commodity prices is causing a sharp drop in the incomes and purchasing power of many of the world's poorest and most vulnerable populations. The World Bank estimates that the expected slowdown in economic growth will throw at least 50 million additional people into extreme poverty in 2009. This is compounding the impact of the preceding food and fuel price crisis, which has not abated in many of the most severely affected countries and which is estimated to have thrown 100 million people into extreme poverty in 2008.

On April 9th, 2009, the President submitted a request to Congress for supplemental funding, including foreign assistance to provide temporary aid to developing countries most severely affected by the global financial crisis. On June 24, 2009, the President signed H.R. 2346, the "Supplemental Appropriations Act, 2009," which included an appropriation of $255,601,000 in the Economic Support Fund (ESF) account to be made available for "assistance for vulnerable populations in developing countries severely affected by the global financial crisis." The Act requires the Secretary of State, in consultation with the Administrator of the United States Agency for International Development (USAID), to submit a detailed spending plan on the allocation of these funds to the Committees on Appropriations not later than 45 days after the date of enactment of the Act.

Allocation Strategy:

Section 1105(a) of the Act specified that funds be made available to countries that:

1) have a 2007 per capita Gross National Income of $3,705 or less;
2) have seen a contraction in predicted growth rates of 2 percent or more since 2007; and
3) have demonstrated consistent improvement on the democracy and governance indicators as measured by the Millennium Challenge Corporation 2009 Country Scorebook.

In consultation with the Department of Treasury and other agencies, the Department of State and USAID identified 35 developing countries that met all three of these criteria. Drawing on reporting from U.S. overseas embassies and missions, detailed analysis provided by the World Bank, and a range of quantitative and qualitative public reports on the severity of impacts on vulnerable populations – and desiring to ensure that the funds provided are sufficiently concentrated to have a significant, noticeable impact on the target populations – the Administration identified the following eight countries to receive priority, short-term assistance funded by this provision of the Act.

Allocation of Funds Provided in Response to the Global Financial Crisis
(thousands)

El Salvador	27,000
Ghana	32,000
Haiti	13,000
Indonesia	52,000
Liberia	14,000
Mongolia	12,000
Tanzania	37,000
Zambia	25,000
Rapid Response	29,601
Credit Guarantees	12,000
Program Support	2,000
TOTAL APPROPRIATED	**255,601**

The bulk of this assistance will be provided in the form of direct income or in-kind "safety net" support to severely affected households in the targeted countries, as described in the individual country spending plans below. Where feasible and consistent with U.S. fiduciary requirements, that support will be provided through established, well-functioning recipient country government mechanisms. In some cases, this support will be provided in the form of direct cash transfers, as described below. If any additional opportunities are identified for appropriate direct cash transfer assistance using funds appropriated by this Act, they will be notified separately to Congress. Funds will also support short-term technical assistance to improve the efficiency of the targeted countries' safety net and related fiscal institutions.

To stimulate rapid economic recovery in the targeted countries, funds will also support credit guarantee programs that encourage the restoration of private capital flows to sectors and activities that create jobs and incomes for vulnerable populations. To maximize the amount of private sector capital leveraged, these programs will include both country-specific and multi-country guarantees. Details on country-specific guarantees are provided in the individual country spending plans, below, and details on multi-country guarantees are provided in the section "Rapid Response and Credit Guarantees."

Finally, a portion of the funds will support targeted, rapid response technical assistance to a range of additional countries meeting the criteria defined in the Act. These funds will allow the United States Government (USG) to respond quickly and effectively to urgent requests from the governments of severely affected countries for help in restoring fiscal balance, improving the efficiency of countries' existing safety net programs and other public services to highly vulnerable populations, and supporting urgent banking and monetary policy reforms.

Recognizing that the impacts of the crisis on many poor and vulnerable populations are continuing to play out and remain highly unpredictable, the Secretary is reserving $18 million to address additional, unanticipated, high priority needs that may emerge in the second half of calendar year 2009.

El Salvador

($ in thousands)	Total	P&S	GJD	IIP	EG	HA
TOTAL	**27,000**				**27,000**	
Economic Support Fund	**27,000**				**27,000**	

SUMMARY

For decades, El Salvador has been one of the USG's strategic allies in the Western Hemisphere. El Salvador has partnered in counter-narcotics operations, supported the U.S. coalition forces in Iraq, and was the first to implement the Dominican Republic-Central America-United States Free Trade Agreement. El Salvador recently had a peaceful, democratic transition that transferred Presidential power from one party to the other. With this political shift, a new Salvadoran government faces many political, economic, and social challenges to its future stability. The USG is in a unique position to deepen a new alliance with the Government of El Salvador (GOES) as it faces a looming financial crisis.

El Salvador has suffered a series of severe economic shocks as the global financial crisis has unfolded. As a net importer of fuel and food, El Salvador was hit hard in 2008 by record food and fuel prices. The Inter-American Development Bank forecast a 16 percent increase in poverty levels due to those initial price shocks. Just as world food and fuel prices began to return to normal, El Salvador began to suffer the effects of a weak United States economy. Over half of El Salvador's trade is with the U.S. and, as a result of the U.S. economic downturn, Salvadoran exports dropped by 22 percent. In El Salvador, the construction, manufacturing, and retail sectors have all suffered declines. Factory closures have become commonplace in the textile and apparel sector, and unemployment nationwide is on the rise. Furthermore, remittances from the estimated two million Salvadorans in the United States (a quarter of the country's population) are down 10 percent compared to 2008. Accounting for 18 percent of GDP, remittances are a critical safety net and one of the most important sources of personal income in many of the poorest municipalities.

The GOES has a growing fiscal deficit and difficulty in meeting short-term debt obligations. While the new administration seeks to make major social investments in health and education, tax collections have slowed along with the economy, and the scope for international borrowing is limited. Faced with this multi-faceted crisis, it is in the U.S. interest to mitigate the immediate impacts of the crisis on highly vulnerable populations. Direct assistance to the most vulnerable and job creation programs are the highest priority. The GOES is seeking donor support for initiatives that will help ameliorate the impact of this urgent crisis.

Assistance will include up to $25 million in cash transfer support to GOES safety net programs and $2 million for related technical assistance, as describe below.

$27 Million – Economic Support Funds (ESF)

Economic Growth ($27 Million)

The USG will provide $10 million as a cash transfer to the GOES to support Comunidades Solidarias Rurales y Urbanas, the GOES conditional cash transfer program that combines the short-term objectives of alleviating extreme poverty with incentives for families to invest in education and health. Begun in 2005 and managed by the Social Investment Fund for Local Development (FISDL) under the Technical Secretariat for the Presidency, the program provides a health stipend for low-income families with pregnant women and children under five years old and an education stipend for families with children from five to fifteen years who have not completed 6th grade. Currently each monthly stipend is $15 per family, with a $20 cap for families receiving both stipends for both health and education. Recipients of the stipend agree to meet specified responsibilities, including school attendance, regular maternal and child health check-ups, and family education sessions. The program operates in 100 municipalities and reaches over 120,000 families. The GOES is planning some changes to the program, including an expansion to urban areas. However, current fiscal constraints will make it difficult to maintain the current program coverage, much less respond to greater needs as a result of the economic crisis.

USG funds would be used to directly support the program's expansion to eligible households that currently are not part of the program. With growing unemployment and declining remittances, the number of eligible families has grown sharply. Over a two year period, this expansion would permit an additional 14,500 households to benefit from the immediate assistance the program provides. USG funds would be directly managed by FISDL. USAID/El Salvador provided funds to FISDL for earthquake reconstruction in 2001, and FISDL currently receives support from a variety of other bilateral donors.

The USG will provide an additional $15 million, either as a cash transfer to the GOES or through a non-governmental mechanism, for job creation programs to improve public infrastructure. As a result of the financial crisis, the number of the unemployed, particularly in urban and peri-urban areas has increased. This program objective will provide temporary employment to 1,000 individuals in each of at least five target municipalities. Participants will receive a monthly payment of $100, helping them to support their families. The program will last 18 months and participants will work on a variety of community development projects. In order to ensure that a high percent of overall program resources flow to the poor in the form of wages, the focus will be on activities that employ a high proportion of relatively unskilled workers and can be successful with a high supervisor-to-worker ratio. The primary objective of this component is to provide alternative sources of incomes in the short-term, bridging the employment gap between the current unemployment crisis and El Salvador's economic recovery. Given that women and children are especially vulnerable to the economic downturn, up to $2 million may be directed to support a GOES initiative to build and equip integrated women's centers that will provide social services and job training to women. This program will be managed by FISDL.

The USG will also provide $2 million for vocational training for youth. The construction industry in El Salvador has suffered greatly due to the financial crisis. As credit has tightened, new construction has fallen sharply. Construction employment, once enjoying robust growth and seen by many as a path out of poverty, has sharply contracted. This program will provide both immediate income earning opportunities and vocational training and engage up to 2,000 unemployed youth, ages 15 to 25. By including vocational education, hands-on training, and placing youth in jobs, the program will have a long-term impact. The program will use community-based construction projects as a vehicle for youth to acquire critical job skills and technical competencies in construction. Youth will spend half of their time building community assets and the other half in vocational and life skills training. Program components include: 1) construction skills training; 2) building community assets; 3) youth enterprise development; and 4) life skills. The program will be administered by Catholic Relief Services in alliance with private sector employers and vocational institutes.

Previously Appropriated Funds

The USG confirms that it has conducted a review of previously appropriated funds and determined that there was no opportunity for re-programming to meet the needs of vulnerable populations affected by the crisis consistent with the purposes of this Act.

Ghana

($ in thousands)	Total	P&S	GJD	IIP	EG	HA
TOTAL	**32,455**			**32,000**	**455**	
Economic Support Fund	**32,000**			**32,000**		
Development Credit Authority	**455**				**455**	

SUMMARY

The impacts of the global financial crisis on Ghana are widespread and severe. Factors such as high inflation, budget deficits, and public debt at 54 percent of GDP have left Ghana "poorly placed to navigate global economic conditions." A sharp reduction in foreign remittances as a result of the crisis has, in turn, contributed to a 31% depreciation of the local currency against the dollar since the beginning of 2008. The pass-through effect of currency depreciation has produced strong inflationary pressures, predicted to climb to over 22 percent by year's end. Decreased revenues have required the government to announce severe austerity measures. The volatile combination of reduced remittances, limited government resources, and high inflation has dramatic social welfare implications for vulnerable populations across Ghana. Populations on the brink of absolute poverty will suffer a disproportionate share of both the economic crisis and government austerity, as basic goods become unaffordable and local governments are unable to provide social safety nets.

The USG has identified the national school system as a conduit for reaching a wide range of vulnerable populations. Schools are the centers of most rural communities and significant gains in access to them in recent years represent one of Ghana's best, but most fragile, Millennium Development Goal accomplishments. The mission's program consists of four initiatives. Hundreds of school construction projects will provide local jobs, increase access to education, and provide for long-term development. Over 100,000 school-based support packages for vulnerable youth will deliver food stores, school supplies, and basic personal amenities needed to keep children in school and away from child labor, early marriage, and violence or trafficking. The localized procurement of such packages will also aid local vendors. The construction and support packages will be augmented by a program to build the capacity of local governments to monitor the delivery of the Livelihood Empowerment Against Poverty (LEAP) program, an existing national social protection strategy that provides monthly cash transfers to households in 84 districts.

Agriculture is one of the cornerstones of the Ghanaian economy, employing almost half of the labor force. The USG will use Development Credit Authority (DCA) guarantees to mobilize private financing to strengthen agribusiness entrepreneurs. The use of the guarantee will unleash local capital and provide much needed finance to microenterprises working in agriculture value chains.

USG support will create one million work-days of labor, provide support for 100,000 youth at risk of dropping out of school, build capacity to identify and monitor social safety nets, and provide agribusinesses with the financing they require to continue to build and grow their enterprises.

Assistance will include $30 million in cash transfer support to the GoG, a $2 million grant to UNICEF, and $455 thousand for DCA loan guarantees, as described below.

$32 Million – Economic Support Fund (ESF)

Investing in People ($32 million)

The USG will provide $6.3 million as a cash transfer to the GoG to strengthen and expand an existing USAID-funded girls' scholarship program to mitigate the social effects of the global financial crisis on the most vulnerable populations in Ghana. The expanded activity will be called the Social Support for Vulnerable Populations (SSVP) program and will ensure that children (boys and girls) from the poorest families are enrolled, retained, and prepared to succeed in school

The SSVP will complement the ongoing GoG LEAP program. The LEAP program has identified 35,000 families in 84 districts of Ghana as the most vulnerable. The LEAP program provides up to $10 a month to improve the economic and social conditions of the targeted families. The SSVP will target the children of these pre-identified vulnerable families and provide educational support packages to enroll and retain up to 33,000 children per year from these families in school. SSVP will enhance the implementation of LEAP by absorbing the direct financial cost of school enrollment and retention on LEAP families, allowing families to use their LEAP monies for other urgent priorities. The SSVP will be complemented by current USAID-funded programs that track school attendance and monitor learning achievement of beneficiaries.

The SSVP program will be managed and implemented by the GoG's Ghana Education Service (GES). A 2007 audit found that the financial management and procurement systems of the GES meet expected standards for implementation of USAID-funded projects. Financial auditing of such GES-implemented activities will be done by the Ghana Auditing Service, after re-training by the USAID Regional Inspector General's offices. GES management of the program will be supported by a technical assistance program provided by a private/non-governmental organization that will assist in the identification, tracking and monitoring of beneficiaries.

The USG will also provide $23.7 million to rapidly generate employment and incomes through public works construction. The construction and rebuilding of educational infrastructure in Ghana is part of a multi-faceted approach to alleviating the impact of the global financial crisis on Ghana's most vulnerable populations. Thousands of schools are described by GES as in "poor condition" or "crumbling," and communities have been deprived of access to education at all levels because of the lack of schools. In Ghana, educational infrastructure offers an enormous backlog of work that can be immediately implemented in every region and district of the country. The spending on "shovel ready" school projects can begin in a matter of months, as the GES has extensive data to pin point the most critical locations for construction, prepared blueprints, and construction expertise. A two-year investment in school construction will produce hundreds of school buildings.

The workforce is ready and available and many of the firms that can do this work are small, local businesses across Ghana. Conservative estimates indicate that the proposed program will create roughly 15,000 jobs or one million person days of employment. Moreover, these jobs will be generated in all corners of the country and will create impact beyond construction. As in the United States, for each two construction jobs created, one job is estimated to be produced in industries that supply inputs to the building/repair process. This two-year activity is estimated to build, furnish, and equip 100 new two-room Kindergartens, 125 six-room Junior Secondary Schools, and provide 38 new District Education Offices.

The USG will also provide $2 million to strengthen local delivery of social and economic services to vulnerable populations. Strengthening the capacity of local governments to deliver social and economic support to the most vulnerable populations will be critical in limiting the impact of the global financial crisis. Therefore, the Mission will build district level capacity to support the GoG's ongoing LEAP program. Activities include training in the identification of vulnerable families, promoting involvement of civil society and communities, and support for monitoring and evaluation efforts. USAID will provide financial support to this project via a grant to UNICEF.

<u>$455,000 – Development Credit Authority (DCA)</u>

Economic Growth ($455,000)

The USG will use DCA guarantees to mobilize private financing for agribusiness entrepreneurs. Other donors are already promoting agricultural investments in Ghana, but are targeting larger producers, processors, and sellers. Therefore, DCA guarantees will focus on microenterprises in targeted agriculture value chains. With the DCA guarantees, microenterprises will have better access to financing, particularly longer-term loans necessary for capital purchases, such as improved equipment and updated technology. The use of the DCA guarantee will unleash local capital and provide much needed access to finance to agriculture value chains. It is estimated that USAID will leverage its resources approximately 22 to 1.

<u>Previously Appropriated Funds</u>

The USG confirms that it has conducted a review of previously appropriated funds and determined that there was no opportunity for re-programming to meet the needs of vulnerable populations affected by the crisis consistent with the purposes of this Act.

Haiti

($ in thousands)	Total	P&S	GJD	IIP	EG	HA
TOTAL	**13,000**			**13,000**		
Economic Support Fund	**13,000**			**10,000**	**3,000**	

SUMMARY

Declining remittances from Haitians living abroad and the loss of trade-related investment, jobs and income due to the financial crisis, combined with prior natural disasters and increases in food prices, have had a severe impact on vulnerable populations in Haiti. The relative calm that has marked the Preval Administration has resulted in substantial gains in the overall physical security throughout the country. However, this period of stability has been threatened in the last 16 months by food riots and other impacts of the short-term crisis. An increasingly narrow window of opportunity exists for Haiti to respond to these immediate challenges and establish a sustainable trajectory for long term growth.

Mindful of the recent opportunities and challenges faced by Haiti, U.N. Secretary General Ban Ki Moon commissioned an economic recovery and development strategy for Haiti in January of 2009. This report was, in turn, used by the Government of Haiti as a foundation for its own economic growth strategy which aims to create 100,000 to 150,000 new jobs in a two-year timeframe. Presented at the Haiti Donor's Conference hosted by the Inter-American Development Bank in April, this so-called "Bridge Strategy" calls on donors to assist the Government of Haiti by investing in a set of productive infrastructure projects, many of them targeted to areas of opportunity for agriculture and manufacturing. A little over one month later, the Secretary General named former President Bill Clinton UN Special Envoy to Haiti. In June, at the General Assembly meeting of the Organization of American States, Haiti was again a focus of discussion. In Resolution 2487, OAS member states congratulated Haiti on its commitment to democratic principles and called on the international donor community to work with the GOH to capitalize on the improved local conditions for sustained growth.

To address the short-term threats and seize new opportunities for growth, Secretary Clinton has called on the State Department and USAID to undertake a review of U.S. Haiti policy—to critically evaluate our existing programs and policies, to assess the alignment of our programming with priorities set out by the Government of Haiti (GoH), and to strategize and reconfigure, as needed, our assistance package such that it seizes as best as possible on the current set of opportunities both in Haiti and across the international public and private sectors.

Assistance is expected to include $10 million to be provided through NGO grant mechanisms and approximately $3 million to be transferred to the Overseas Private Investment Corporation (OPIC), as described below.

<u>$10 Million – Economic Support Fund (ESF)</u>

Investing in People ($10 Million)

Drawing on the supplemental funds provided in this Act, the USG and the GoH are considering strategic investments that can be made in the next twelve months in community infrastructure serving targeted, vulnerable populations. These investments include labor intensive cash-for-work public works projects to rehabilitate rural feeder roads, irrigation systems, earth dams, and storage facilities in key agricultural production zones. USAID can use existing assistance mechanisms to ensure that funds are deployed rapidly and have a direct and meaningful impact on the livelihoods of the targeted populations. Existing partners – including the International Organization for Migration (IOM) and CHF International – can rapidly adapt both the scale and geographic scope of their operations.

<u>$3 Million – Economic Support Fund (ESF)</u>

Economic Growth ($3 Million)

To create new jobs and income opportunities for vulnerable households, the USG and the GoH are considering the transfer of approximately $3 million from ESF to the Overseas Private Investment Corporation (OPIC) to allow OPIC to partner with interested U.S and Haitian investors to build the infrastructure for a modern industrial park. Funds would be used to construct utilities and building shells to be leased to companies for warehousing and general purpose, labor-intensive businesses, but would not be provided directly to any individual users of the park. Once completed, companies would utilize the various buildings on a lease arrangement and establish businesses that would create new jobs.

Indonesia

($ in thousands)	Total	P&S	GJD	IIP	EG	HA
TOTAL	**53,600**				**53,600**	
Economic Support Fund	**52,000**				**52,000**	
Development Credit Authority	**1,600**				**1,600**	

SUMMARY

The international financial crisis has impacted Indonesia primarily through its impact on exports and subsequent reduction in employment and incomes. At present, nearly 50 percent of the population lives on less than $2 per day and 15 percent of the population are below the official national poverty line. Sixty percent of those below the poverty line are in rural areas. The rural areas, which account for over 41 percent of national employment, are hard hit by the decline in incomes and employment opportunities due to lower commodity prices. This results in increased unemployment for rural farm/plantation workers, reduced incomes for producers and reductions in off-farm employment opportunities as rural businesses are impacted by reduced income. Rural wages are also under pressure as a result of reduced job opportunities. Urban to rural migration by those who cannot find even part-time employment in urban areas exacerbates the problem. To address these challenges, there is a need to expand social safety nets, such as rural public works programs, to reduce the impact of the fall in incomes. In addition to rural works programs, the crisis can serve as an opportunity to expand investment in productive assets in rural areas by using the unemployed labor in the replanting of low productivity cocoa and coffee farms—two agricultural commodities critical to Indonesian exports.

The Government of Indonesia (GOI) presently has an ongoing program, the National Program for Community Empowerment or Program Nasional Pemberdayaan Masyarakat (PNPM), which serves as a vehicle for programs to address rural poverty. PNPM, established in 2006, is the GOI's policy and operational umbrella for all rural community empowerment programs in the country. The program has been supported by the World Bank and a number of other bilateral donors. In 2009, the program has expanded from 2,835 to 4,371 sub-districts. The program, however, needs to expand both geographically and with increased expenditures per sub-district.

Assistance will include $50 million in cash transfer support to the GOI, $2 million in Technical Assistance, and $1.6 million for DCA loan guarantees, as described below.

<u>$52 Million – Economic Support Fund (ESF)</u>

Economic Growth ($52 million)

The USG will provide $50 million as a cash transfer to the GOI to augment the GOI's existing PNPM community-level jobs program. The PNPM is focused on rural job creation through rural infrastructure construction and/or rehabilitation (roads, irrigation, schools and clinics). PNPM's targeting is effective, benefiting almost exclusively the poor and raising their yearly income by

5-10 percent on average. PNPM has been especially effective in providing immediate benefits to large numbers of rural families while other policy and program changes can take longer to make a difference. At present each sub-district gets on average approximately $150,000 USD for investment (ranging from $83,000 to $250,000). At present, the number of workers targeted is 24 million. A program of $50 million will allow the current program to expand by 5 percent, increasing the level of employment by 1,440,000 workers. Moreover, by concentrating our resources in those areas most affected by the financial crisis we anticipate that we will have a greater impact than if the funds were spread across all of the sub-districts. Selected sub-districts will be located in the areas where reduced exports and/or income from exports have reduced farmer incomes and those sub-districts where a substantial number of workers who have become unemployed have returned, looking for work.

With PNPM expansion, it is especially important to have an effective system for monitoring and evaluation (M&E) of PNPM's impact on the poor, and resistance to corruption and patronage. Therefore, the USG will provide $1,358,000 to enhance the PNPM M&E system and implement a training program for mid-level managers whose role has increased as the program has expanded.

The USG will also provide $642,000 in technical assistance to strengthen financial sector regulations and practices. The current financial crisis has exposed a number of weaknesses and shortcomings in the Indonesian financial markets. This has raised concerns that the current regulations and protocols used to monitor capital markets are inadequate, resulting in market misconduct that has victimized many small investors, including vulnerable pensioners. Regulation of domestic institutional investors, particularly insurance and pension funds, needs to be improved in order to strengthen the social safety nets these institutions provide. Indonesian regulators also need targeted training in the use of accurate valuation and mark-to-market practices to prevent mispricing and inappropriate valuation practices that allow risks to spread across asset classes and the banking system and have the potential to raise the cost of financing for all borrowers. U.S. Department of Treasury can provide the short-term assistance needed by the Indonesian regulatory authority to address these issues, which have been exacerbated by the ongoing global financial crisis, and, in the long-term, decrease risk and financing costs for small investors and borrowers.

<u>$1.6 Million – Development Credit Authority (DCA)</u>

Economic Growth ($1.6 million)

As a result of the global crisis, credit risks in Indonesia have risen sharply with higher interest rates and a general tightening of liquidity. Far fewer new loans are being approved, and new customers are having difficulty accessing credit. With millions of people employed in microenterprises, the ability for micro entrepreneurs and microfinance institutions to access credit is critical for employment and poverty alleviation. Prior to the financial crisis, a number of private financial institutions expressed interest in developing specialized products to serve microenterprises. With the uncertainty about the financial and economic future, these financial institutions are hesitant to enter a new market.

The USG will provide a $700,000 DCA guarantee to encourage the development of specialized microfinance products, such as collateral-based loans. This will help increase the number of lenders that are serving small and micro enterprises throughout Indonesia. In the immediate term, greater financing availability for entrepreneurs will lessen the impoverishing effects of the economic slowdown. Over the medium term, the DCA guarantee will help spur market competition by introducing a greater number of lenders serving the poor and very poor. This should lead to better loan terms for borrowers. USAID will leverage its resources at approximately 22 to 1 through this DCA guarantee.

The global downturn, lower global commodity prices, and reduced global financing will continue to slow Indonesian growth in 2009 and 2010. Despite this, two private Indonesian commercial lenders stated that demand for exports continues to exceed financing availability. This is in spite of a drop in exports of 20 to 40 percent in the second quarter. However, tightening domestic credit conditions and greater uncertainty about the global outlook are reducing private lenders' ability and appetite to respond to this demand. This has resulted in significant job lay-offs throughout Indonesia, with the agriculture, manufacturing, and wood industries, especially affected. Many farms and plantations are being forced to fire thousands of workers.

USAID/Indonesia will provide a $900,000 DCA guarantees to support SMEs' access to trade finance. The SMEs will be in targeted value chains, including but not limited to, agriculture, manufacturing, and sustainable forestry. The guarantees will enable private lenders to expand their current portfolio caps and increase lending to SMEs engaged in trade. The result is that targeted SMEs will be able to sustain their operations and make working capital investments necessary to grow their enterprises and to create jobs for thousands of Indonesians. USAID will leverage its resources at approximately 22:1.

Previously Appropriated Funds

The USG confirms that it has conducted a review of previously appropriated funds and determined that there was no opportunity for re-programming to meet the needs of vulnerable populations affected by the crisis consistent with the purposes of this Act.

Liberia

($ in thousands)	Total	P&S	GJD	IIP	EG	HA
TOTAL	**15,200**			**11,500**	**3,700**	
Economic Support Fund	**14,000**			**11,500**	**2,500**	
DCA	**1,200**				**1,200**	

SUMMARY

In the wake of the global financial crisis, Liberia's President Ellen Johnson Sirleaf has identified as her top concern the impact of the crisis on the poor. Liberia requires vigorous and equitable economic growth to make up for decades of war and autocratic mismanagement, which have left 40 percent of children under five years malnourished and stunted; only 15 percent of the population formally employed, and 80 percent of the population subsisting on less than one dollar a day. The financial crisis threatens to erode the gains Liberia has made during the post-conflict era. The 63 percent decline in world prices for rubber (which accounts for 80 percent of export earnings) between October 2008 and January 2009, and the drop in government revenue as a result of reduced interest rates on its foreign deposits has resulted in salary cuts and lay-offs in the public and private sectors.

Furthermore, a decline in remittances from $303 million in 2007 to $181 million in 2008 (through end-November) has increased the vulnerability of many households (the majority of which are female-headed) whose primary income is not derived from wages from the formal employment sector. The Central Bank continues to tighten supervision but the financial system remains frail and banks lack rigorous internal governance. Although investment grew in 2008, the Government of Liberia (GOL) is receiving less favorable terms in current concession negotiations. Resumption of timber exports is behind schedule, and the slowdown in foreign direct investment has delayed royalties and other payments upon which the GOL's budget depends.

Assistance will include $6.4 million in cash transfers to the GOL to support public-sector health and education salaries; $3.6 million for safety net assistance through existing USAID mechanisms; $3.5 million through a grant to WFP; $500,000 in technical assistance implemented by the Department of the Treasury, and $1.2 million in DCA loan guarantees, as described below.

<u>$ 14 Million – Economic Support Fund (ESF)</u>

Investing in People ($11.5 million)

The USG will invest $4 million to provide basic health services to the Liberian population. The Ministry of Health and Social Welfare's budget is under enormous stress due to a sharp decline in GOL revenues. The budget shortfall has led to delays in payment of health care worker salaries (up to three months), and reductions in the purchase of essential drugs, medical equipment (for new clinics as well as replacement), supplies and diagnostic materials. Public health spending and coverage of the vulnerable will need to be increased to avoid sharp spikes in mortality and morbidity rates. Of the total $4 million for health, the USG will provide $1.6 million in medical supplies and essential drugs where critical shortages are reported. More than 150,000 people will directly benefit as a result. In addition, the USG will provide $2.4 million to support salaries of health workers. This intervention will result in hundreds of jobs being maintained and continued access to basic health services for tens of thousands of people. Funded activities will be implemented through existing USAID mechanisms. The budget support portion will be administered by the Ministry of Health, in which Price Waterhouse Coopers has an embedded unit supported by USAID.

The USG also will provide $7.5 million in funding through two separate mechanisms to help the GOL continue to deliver education services to its population. The shortfall for teacher salaries is currently $6.66 million. There is also a shortfall of $587,000 for operating costs at the Rural Teacher Training Institutes, which are currently training and certifying new pre-service and in-service teachers to address the Liberian situation in which 55 percent of teachers remain untrained and uncertified. This MoE budget shortfall has led to several significant delays: in paying 6,782 newly recruited teachers (formerly “volunteer” teachers) who are currently teaching in Liberia’s schools, in adding newly certified teachers to the payroll, and in food and fuel delivery to the Rural Teacher Training Institutes. The USG will provide $4 million in budget support as a cash transfer to the GOL to support the employment of primary school teachers. This funding will allow the Ministry of Education (MoE) to meet its commitment to pay salaries for at least 6 months for 6,782 newly recruited teachers, as well as another 1,000 recent graduates. The MoE and USG have put considerable resources into training and recruiting qualified teachers. The failure to pay teachers puts at risk the effort to improve Liberia’s basic education system. Funds will be managed by the Project Financial Management Unit (PFMU) in the Ministry of Finance, which is responsible for providing centralized accounting, disbursement, and reporting services for the MoE’s Education Pooled Fund, using a separate account, but similar systems to those used for the administration of the Education Pooled Fund.

The USG will provide the remaining $3.5 million for school feeding programs through the World Food Program (WFP). The global food crisis last year and now the financial crisis has diminished international support for Liberia’s school feeding program to the point where the WFP has contemplated phasing out the program. This proposed support will assist more than 300,000 primary school children. USAID can quickly renew its agreement with the WFP for this activity. Food will be sourced from the United States commodity market and from Liberian farmers through an innovative local procurement process.

Economic Growth ($2.5 million)

The USG will provide $2.5 million to preserve and create new jobs and, in the process, rebuild infrastructure that is the basis for sustainable development. $2 million will be invested in expansion of the electricity distribution network. The GOL has a unique opportunity to provide electricity for most of the citizens in Monrovia after nearly 25 years of darkness. A labor-intensive public works project in Monrovia to expand the distribution network will quickly create jobs and form the basis for future economic growth. "Keeping the lights on" in Liberia is an imperative in order to maintain political and economic stability. Twenty-six thousand person-months of employment will be created by this workforce program. USAID will manage this activity through an existing program.

The USG will also provide $500,000 to fund an advisor from the U.S. Department of Treasury's OTA to assist the Ministry of Finance (MOF) in improving revenue collection—through provisions to impose tougher enforcement and revenue compliance, as well as through training of MOF's auditors. Given that Liberia is required to run a cash-only budget because of requirements from the Highly Indebted Poor Country Initiative, an increase in revenue collection translates directly into an increase in social services provided to the people of Liberia.

$1.2 Million – Development Credit Authority (DCA)

Economic Growth (1.2 million)

Farming is not only the main source of income for farmers, it is also the main source of income for the majority of Liberians, an estimated 75 percent of whom are engaged in farming-related activities. Within the agriculture sector, major constraints for farmers are a lack of seeds, tools, equipment, and credit. A lack of reliable road infrastructure also constrains borrowers across various sectors, including agriculture, that rely on the transportation of goods to market. USAID/Liberia will provide DCA guarantees to scale up financing to SMEs throughout Liberia in both urban and rural areas, and across various sectors, including agriculture and rural road construction. USAID will leverage its resources at approximately 10 to 1.

Previously Appropriated Funds

The USG conducted a review of its development portfolio to determine if there were opportunities to re-program activities to meet the needs of the most vulnerable. Changes were made as a result of that review, including substantial increases in grant support to agricultural small and medium size enterprises to increase food security and expand employment opportunities. A total of $896,714 has been re-programmed for these purposes.

Mongolia

($ in thousands)	Total	P&S	GJD	IIP	EG	HA
TOTAL	**14,000**				**14,000**	
Economic Support Fund	**12,000**				**12,000**	
Development Credit Authority	**2,000**				**2,000**	

SUMMARY

The global financial crisis has had an immediate and sharply negative impact on Mongolia's vulnerable populations. Following dramatic increases in food prices and inflation that peaked in mid 2008 at 34 percent, the highest inflation rate in the region, the crisis accelerated in late 2008 with the collapse of world copper prices that halved Mongolia's foreign-currency reserves and drastically reduced its ability to sustain social spending. One third of the government's budget is financed by minerals exports. The combination of high food prices, high inflation, low foreign exchange reserves and reduced social spending led to sharp declines in the real incomes and purchasing power for most Mongolians, especially for the 35 percent of Mongolia's population that lives below the poverty line.

Both parties in Mongolia's Parliament demonstrated bi-partisan resolve to address the immediate effects of the crisis, correct policy errors and set the stage for a sustained recovery. The Government of Mongolia (GoM) has injected hundreds of millions of dollars into the financial system, cut government spending, and reached out to donors for assistance in stabilizing the economy and correcting policy distortions. Realizing that past expansionary fiscal and monetary policies caused an unsustainable, pre-crisis economic boom, GoM leadership is now focused on engineering a "soft landing," and using the crisis as an opportunity to initiate much-needed policy reforms. There is widespread donor and GoM consensus that, to recover from the crisis, Mongolia needs targeted social transfers, disciplined fiscal policy, and urgent bank restructuring, including financial sector consolidation and improved bank supervision. The ESF and DCA funds will be used to support GoM and other donor objectives in a manner that will mitigate the immediate impact of the global crisis on highly vulnerable populations. Supplemental funding will help protect the poor and create jobs for a sustainable recovery.

Assistance will include a $10 million cash transfer to support a GOM safety net program, $2 million for DCA credit guarantees, and $2 million in related technical assistance, as described below.

<u>$12 Million – Economic Support Fund (ESF)</u>

Economic Growth ($12 million)

In early 2009 the GoM initiated discussions with the International Financial Institutions (IFIs) and bilateral donors for financial assistance based on fiscal and monetary policy reforms. The

International Monetary Fund (IMF) responded with a Standby Agreement, and the World Bank (IBRD) and Asian Development Bank (ADB) recently approved program loans designed to protect the poor during the financial crisis while initiating longer term reforms that will improve the targeting of social assistance. Crisis assistance provided by Japan, the IBRD and the ADB will also focus on restructuring the troubled banking sector and restoring confidence in Mongolia's fragile financial sector.

Cash Transfer Assistance Agreement ($10 million): The short and medium term conditionality leveraged by the IFIs is both broad and deep, and the U.S. will maximize complementarities by executing a $10 million Balance of Payments and Budget Support (BPB) program assistance grant agreement that will help Mongolia bridge its public sector budget deficit and foreign exchange shortfall, while targeting local currency generations on social safety net transfers for the poor. This cash transfer agreement will support and closely parallel the Japanese, IBRD and ADB program objectives.

The USG will transfer dollars to a separate GoM central bank account. The dollars will generate a commensurate amount of local currency revenue for GoM budget expenditures directed at social safety net expenditures for the poor. The agreement will also include provisions that are supportive of better targeting of social transfers, improved fiscal policy management, and financial sector reform. The dollar and local currency use provisions, and the specific social safety net programs to be supported with the ESF-generated local currency, will be identified after careful examination of the GoM's 2009 budget which is currently being amended with IMF support. In accordance with USAID regulations and policy guidance, the BPB agreement will incorporate strict U.S. accountability and transparency mechanisms for frequent review of conditions and country performance where appropriate, as well as for verification of the dollar and the local currency uses.

Technical Assistance ($2 million): In conjunction with the $10 million BPB Program Assistance agreement described above, approximately $2 million in ESF will fund technical assistance focused on restoring confidence in the financial sector. The current financial crisis presents an unusual opportunity to address systemic bank sector weaknesses that have slowed credit to job-creating small businesses. These funds will provide assistance to quickly restructure troubled banks and strengthen bank supervision and regulation. Technical assistance will be provided through an existing USAID financial-sector project advising the central bank on its restructuring and consolidation plans. At the request of the central bank, USAID recently completed a comprehensive assessment of the banking sector, and is currently working on restructuring the first failed bank. USAID will continue to provide assistance with bank restructuring plans as part of a broader, fully-coordinated, IFI effort to resuscitate the banking sector and revitalize lending for job creation. USAID’s partners in this effort include the central bank, the IBRD, ADB, European Bank for Reconstruction and Development, IMF and International finance Corporation. A portion of this assistance may also be provided through the US Treasury’s Office of Technical Assistance (OTA).

<u>$2 Million – Development Credit Authority (DCA)</u>

Economic Growth ($2 million)

As a result of the financial crisis, bank credit in Mongolia tightened and lending plummeted. Approximately 90 percent of businesses in Mongolia are small and medium sized enterprises (SMEs), and as a result of the crisis SMEs have been unable to access finance to sustain their businesses. More than 300,000 people are employed by SMEs in key sectors of the economy, including construction, housing, and agriculture. USAID/Mongolia will use DCA guarantees to mobilize and leverage financing to maintain and generate employment across targeted sectors by promoting lower collateral requirements and longer term loans. Targeted small businesses will include, but not be limited to, those working in the construction and housing sectors, as well as start-ups associated with logistics and supply operations. By reinvigorating activity in employment intensive sectors, the program will minimize the effects of the global financial crisis on the Mongolian economy. The proposed DCA guarantees will leverage resources at a ratio of approximately 15 to 1, and these loans will directly complement the fully coordinated bank restructuring effort described above.

Previously Appropriated Funds

The USG confirms that it has conducted a review of previously appropriated funds and determined that there was no opportunity for re-programming to meet the needs of vulnerable populations affected by the crisis consistent with the purposes of this Act.

Tanzania

($ in thousands)	Total	P&S	GJD	IIP	EG	HA
TOTAL	**37,700**			**35,000**	**2,700**	
Economic Support Fund	**37,000**			**35,000**	**2,000**	
Development Credit Authority	**700**				**700**	

SUMMARY

The global financial crisis is beginning to have serious adverse affects on the Tanzanian economy and its people. The World Bank and IMF project that shocks from the global financial crisis will reduce Gross Domestic Product (GDP) growth from the previously projected 7.5 percent in 2008 to around four to five percent in 2009. From 2007 to 2008, Tanzania's current account deficit increased 34 percent and was equivalent to 12.7 percent of GDP in 2008, as compared with 9.4 percent of Gross Domestic Product in 2006. Since a sharp upward spike in 2008, domestic food prices have stayed high and inflation has soared from five percent in 2007 to 11 percent in 2009. Inflation is mostly influenced by food prices, as food constitutes the largest share of the overall consumer price index (67 percent for rural and 52 percent for urban). Declining incomes and soaring inflation are eroding households' purchasing power and hence, threatening to throw more people into food insecurity and poverty. Tanzania has benefited only marginally from lower global oil prices, due to the depreciation of the Tanzanian Shilling (its value has fallen 18.4 percent between January and July 2009).

Transmission of the global financial crisis to the Tanzanian economy is mainly through falling commodity prices, especially for agricultural exports, declining tourism, reduced foreign direct investment and, to some extent, reduction in remittances. Tourism, the largest earner of foreign exchange, is expected to lose up to 30 percent of projected revenue this year. In horticulture, the price of cut flowers has fallen by 25 percent, thus threatening the employment of 30,000 farm workers in the sector. Other traditional exports like cotton, coffee, sisal, and tea have also been impacted, and it is projected that tens of thousands of formal sector workers may lose their jobs in these sectors. Major foreign investments in mining, power generation and bio-fuel have been put on hold, along with the Government of Tanzania's own plan to issue sovereign bonds for infrastructure financing. Tanzania depends on foreign aid for 35 percent of its fiscal budget, and 50 percent of bank assets are held by international banks. With bilateral donors and financial institutions facing severe impacts from the global financial crisis, Tanzania's condition is precarious. Implementation of the country's 2009/ 2010 budget will be challenging, as there could be reduction in donors' support, and there is a temptation for the government to increase taxes to maintain the previous levels of revenue despite the economic slump.

Assistance will include $27 million in grants to World Food Program mechanisms, an $8 million grant to a World Wildlife Fund mechanism, $700 thousand for DCA credit guarantees, and $2 million in related technical assistance.

$37 Million – Economic Support Fund (ESF)

Investing in People ($35 Million)

The USG will provide $16 million to support a school feeding program implemented by the World Food Program (WFP). Children are particularly vulnerable and low primary school enrollment and attendance rates persist in many food-insecure districts in central and northern Tanzania. Many children are withdrawn from school to work, particularly during the lean season. To address these issues, WFP implements the Food for Education Program (FFE), which contributes to the achievement of the universal primary education goal, as well as to the Government of Tanzania's National Strategy for Growth and Reduction of Poverty (MKUKUTA). The program aims to accomplish the following: i) increase enrollment, attendance, concentration span, and learning capacity, and reduce drop-out and gender disparity; ii) reduce the use of wood and increase awareness and knowledge of environment-friendly practices and technology in schools and communities; iii) strengthen the capacity of districts in data collection and management; iv) increase knowledge and awareness of the cost and impact of the FFE program.

WFP is currently supporting 330 schools in 13 drought-prone, food insecure districts of Arusha, Manyara, Dodoma, and Singida, where more than 202,000 children are currently given two meals a day: a mid-morning snack and a school lunch. WFP intends to expand this program to areas severely affected by the global financial crisis through declining commodity prices (for cotton, coffee, gemstone, etc). Other target areas will be pastoral communities in Wildlife Management Areas (WMA) where lower income from declining tourism has affected the community. With $16 million funding from the USG, WFP expects to reach out to 400,000 additional children in 650 primary schools by providing two meals for one year.

The USG will provide an additional $8 million in funding to the WFP to expand a Food for Assets (FFA) program. The WFP will provide a family food ration to low-income food insecure households as an incentive to participate in asset creation activities including rehabilitation/construction of irrigation systems, tree planting, construction of improved food storage facilities, rehabilitation of access roads, and provision of potable water supply for people. In pastoral communities, the FFA program will support earth dams for livestock, stock routes to markets, and feedlots. The activity targets areas that have high levels of acute food insecurity or have lost incomes because of the global financial crisis. The FFA program contributes to increased crop yields, reduced post harvest losses, diversified crop production, reduced costs of food transportation from farms to markets, and increased household access to water. Local procurement for food through Purchase for Progress will stimulate domestic production and increase farmers' income and incentive to produce more. WFP plans to reach over 200,000 direct beneficiaries (or 32,000 households) in target areas. WFP will provide capacity building to the Government of Tanzania and strengthen the National Nutrition Surveillance. WFP will also conduct a Comprehensive Food Security and Vulnerability assessment which will guide the Government of Tanzania and donors, including the USG, in designing their agricultural and development programs.

The USG will provide another $3 million in funding for an employment generation program through the WFP aimed at restoring purchasing power to rural households that have lost incomes through retrenchment or falling commodity prices for exports. The cash for work program will contribute to development of farming and marketing infrastructure through labor intensive public works to rehabilitate rural roads, irrigation canals, earth dams, storage facilities, and other rural infrastructure. Over 100,000 (or 16,000 households) beneficiaries will be engaged in various temporary employments in the course of implementing the program.

The USG will provide $8 million in funding for a cash for work program implemented by the World Wildlife Fund (WWF) in cooperation with the U.S. Department of Interior. With projected revenue shortfalls of up to 30 percent, the institutions tasked with managing Tanzania's natural resources will not be able to maintain or develop new critical programs, including protected area infrastructure and anti-poaching networks. Livelihood improvement trends as a result of ecotourism business ventures, now face challenges as the financial crisis threatens these business investments, resulting in loss of revenues streams for communities and increased vulnerability. Due to the sensitive nature of the newly established Wildlife Management Areas, programs must be established to develop employment opportunities for local villagers who own the WMAs. A proposed WMA Conservation Corps, deployed as a temporary cash for work program in not less than eight WMAs, would employ local workers, normally dependent on tourism for their livelihoods, in construction of the required roads, ranger-posts, signage, marketing, and management infrastructure. The local economy will also be stimulated through direct procurement of the necessary construction materials and other inputs from local sources. This will stabilize household income while laying the foundation, literally, for Tanzania's future tourism opportunities. Over 300,000 people (50 percent of whom are women) in 50,000 households will benefit from increased household incomes earned as temporary wages when this cash-for-work safety net program rolls-out in 180 villages. As WMAs were established in critical migratory and/or wildlife dispersal areas, and due to an increase in poaching as local village livelihoods decrease, the WMA Conservation Corps is a well-founded and timely short term solution to addressing multiple problems.

Economic Growth ($2 million)

The USG will provide $1 million in technical assistance to support financial sector and public financial management reform. Capacity building efforts will be devoted to support the central bank in monitoring the impact of the global financial crisis, building resilience to future economic shocks, and designing financial products to increase access to credit to the private sector, especially in agribusiness. With support from the US Department of Treasury's Office of Technical Assistance (OTA), the USG will leverage information technology to improve public financial management, deepen domestic financial markets, and increase the overall effectiveness of donor funding. Fiscal austerity is critical as revenue collection dwindles in the wake of an economic slump.

Treasury OTA has recently deployed its first resident advisor at the central bank to provide technical assistance in domestic capital market development and more efficient public financial management. The proposed activity will support the Bank of Tanzania and the Ministry of Finance in developing a robust Information Technology platform capable of providing real-time cash balance information from a Treasury Single Account to policymakers. Specifically, this activity will improve the capacity of the Government of Tanzania Treasury to implement the following: i) improved cash management and reduced unnecessary borrowing; ii) more accurate cash forecasting and budget implementation; iii) tightened financial control of ongoing long term projects; and iv) greater transparency and less opportunity for misuse of funds.

The USG will provide an additional $1 million in technical assistance to target the nascent horticulture sector, which is in danger of collapse, particularly within the cut flower business. The Tanzania Horticulture Association (TAHA), which represents hundreds of growers and exporters, has requested immediate assistance, lest many of the larger growers collapse. The horticulture sector is a significant employer of both factory workers and small-holder out-grower farmers. Capacity building activities will improve the enabling business environment in horticulture and reduce Tanzania's vulnerability to global economic shocks. Technical assistance will be provided to TAHA to restructure member loans with the Tanzania Investment Bank that are in danger of default. As these are Government of Tanzania-backed loans, averting default would have a positive impact on the solvency and liquidity of the banking sector, along with supporting the growers through this difficult period. Technical assistance would be provided to the industry in financial management and planning, with a focus on loan restructuring, developing new financial tools, and utilizing existing and new credit guarantee schemes.

$700,000 – Development Credit Authority (DCA)

Economic Growth ($700,000)

Uncertainty in the banking sector and a freezing up of credit and lending, particularly to the agriculture sector, is hampering Tanzania's economic growth. Tightening credit conditions can lead to rising unemployment levels as SMEs are increasingly unable to afford working capital and investments in their businesses. A DCA guarantee will mobilize financing for SMEs in agriculture value chains, including farmers and agro-dealers supplying fertilizer, seed, and other farm inputs. The confluence of declining commodity prices in the wake of the global financial crisis, the credit squeeze, and the perception that agriculture is a high risk sector have resulted in very little lending to SMEs. USAID will leverage its resources at approximately 22 to1.

Previously Appropriated Funds

The USG confirms that it has conducted a review of previously appropriated funds and determined that there was no opportunity for re-programming to meet the needs of vulnerable populations affected by the crisis consistent with the purposes of this Act.

ZAMBIA

($ in thousands)	Total	P&S	GJD	IIP	EG	HA
TOTAL	**25,000**				**25,000**	
Economic Support Fund	**25,000**				**25,000**	

SUMMARY

The global financial crisis threatens to reverse some of the recent gains made as a result of Zambia's economic growth. The direct effect on the financial sector has been limited due to Zambia's reliance on domestic funding and limited exposure to international credit lines. However, the central bank has increased interest rates sharply as a result of portfolio investment outflows and inflation. The most significant effect of the global financial crisis on Zambia's economy has been the fall in global copper prices. By end-2008 the price had decreased to approximately $2,902 per ton from as high as $8,985 in July 2008. Although there has been a rebound in the global copper price to around $5,000 per ton, employment losses in the mining sector have been significant. Prior to the crisis, the sector accounted for approximately eight percent of formal employment, but that has now decreased to four percent. Copper accounts for the majority of Zambia's total export revenue (up to 80 percent of export revenue in recent years) and is the major source of government revenue as well. The fall in copper prices and portfolio investment outflows resulted in a 50 percent depreciation of the domestic currency over the past year. The current account deficit doubled in 2008. As the economy continues to slow, secondary effects may include a negative impact on the financial sector.

USG activities will address the crisis in two ways: the social safety net activities will target persons directly affected by job losses, particularly in the Copperbelt, and other vulnerable persons severely affected by the rise in staple food prices. Utilizing a market mechanism to alleviate the impact of the economic crisis, the USG will bolster private sector growth while helping those most affected by the crisis. The capacity development activity proposed will leverage Government of the Republic of Zambia (GRZ) and other donor actions to accelerate reform in the financial sector, a necessary condition for long-term stability and growth within the country. These activities provide a multifaceted USG response to the crisis.

Assistance will include $23 million in grants to World Food Program mechanisms and $2 million in related technical assistance, as described below.

<u>$25 Million – Economic Support Fund (ESF)</u>

Economic Growth ($25 million)

Zambian families spend as much as 80 percent of their weekly budgets on food. As jobs are lost in the formal sector and alternative employment opportunities dissipate as a result of the global economic crisis, reductions in income are directly reflected in reduced health and nutrition outcomes.

The USG will target funding to vulnerable populations through two World Food Program (WFP) mechanisms. The USG will provide $12 million in funding to WFP for expansion of a newly developed local purchase program that utilizes the local commodity exchange to buy Zambian farm production for its programs that feed the neediest communities, particularly those hit by the recent economic downturn. The WFP-managed food safety net program utilizes a private sector-based approach for local food production purchases that boosts smallholder incomes, builds market-based, open pricing systems (through a USG-supported commodity exchange), and promotes investment in commercial farming. This program puts cash directly into farmers' hands, spurring timely local spending and small scale investment. The U.S. funding will accelerate and expand this market-based program to other populations that have been impacted by the economic downturn.

A second element of the program will provide $11 million in funding to an innovative WFP voucher program to target the urban poor whose livelihoods have been affected by the economic down turn. The number of urban poor increased dramatically as mines and associated industries shut down and subcontracts with local companies are terminated. At present, the safety net program is operational and could be expanded rapidly with additional funds. Accelerated rollout of the program will ensure stability in the Copperbelt, an area of the country known for its social volatility during periods of economic downturn.

The USG will provide $2 million in technical assistance to the Bank of Zambia's (BOZ) Financial Sector Development Program II (FSDP II). The FSDP II proposal contains a multi-year action agenda (to be funded by multiple donors and the GRZ), with the second phase of activities scheduled to begin in September 2009. FSDP II proposes three components: market Infrastructure, increasing Competition, and access to Finance as critical areas of intervention. Key performance indicators for the program are the following: (a) greater mobilization of local financial resources towards productive activities, through a deepening of the activities of banks, non-bank financial institutions, and the capital markets. (b) increased access to financial services to the currently underserved segments of the economically active population, in particular to the SME and micro enterprise sectors, and to the rural and agricultural sectors, and (c) lower financial cost, in terms of reduced interest rates and intermediation spreads as well as reduced costs of financial transactions. Importantly, the new financial sector program takes into account the objectives of the Government's Private Sector Development (PSD) program and will be implemented in close coordination with that program. Utilizing a USAID contract mechanism, the USG will continue to strengthen the banking sector through targeted technical input and systems development integrating with other donors on the three proposed components.

Previously Appropriated Funds

The USG confirms that it has conducted a review of previously appropriated funds and determined that there was no opportunity for re-programming to meet the needs of vulnerable populations affected by the crisis consistent with the purposes of this Act.

Rapid Response and Multi-Country Credit Guarantees

($ in thousands)	Total	P&S	GJD	IIP	EG	HA
TOTAL	37, 601				37,601	
Economic Support Fund	31,601				31,601	
Development Credit Authority	6,000				6,000	

SUMMARY

Rapid response and credit guarantee funds will support: multi-country credit guarantees focused on restoring private lending to vulnerable populations severely affected by the crisis; short-term measures to improve the efficiency of fiscal systems supporting public services and safety nets; and related technical assistance. Multi-country credit guarantees will mobilize local currency financing for microenterprise financing institutions (MFIs) in the eight targeted countries and in other countries, if needed and as consistent with the legislation.

Rapid response technical assistance will address a range of immediate needs, including design and implementation of social safety net mechanisms; improving the efficiency of fiscal management—including better designed and administered tax systems as well as strengthened budget and expenditure systems and public debt management; and strengthening financial institutions and regulatory bodies facing significant stress as a result of the global downturn. This technical assistance will be overseen by USAID operating units (USAID/EGAT or field missions). Technical assistance will be implemented by USAID or Treasury's Office of Technical Assistance.

$31.6 Million – Economic Support Fund (ESF)

Economic Growth ($29.6 million)
Program Support ($2.0 million)

$11.6 million will support rapid response technical assistance, which will be tailored to the individual needs of low and lower middle income countries other than those targeted for direct "safety net" support under this supplemental appropriation, and will be responsive to the unstable and continually evolving fiscal and other economic conditions in those countries. Technical assistance needs and opportunities will be identified by U.S. field missions, in consultation with their host country counterparts, and may include:

- Dominican Republic – Maintain fiscal stability and promote increased budget transparency and accountability in a period of limited and reduced resources, while implementing necessary and targeted budget reductions that preserve essential government services, $0.6 million; OTA

- Guatemala **– S**upport to Guatemalan public sector in strengthening the targeting, transparency and efficiency of its new social safety net mechanism; $1 million; USAID

- Jamaica **–** Assist the Government of Jamaica to address its severe fiscal imbalances, including management of public debt, and tax administration; $1.5 million; USAID

- Moldova – Advise government on appropriate monetary policies during the economic crisis, $0.45 million; OTA

- Mozambique – Assist government in raising revenues to reduce fiscal gap through collection of delinquent taxes, establishment of a large taxpayer unit, and taking active measures against corruption, $0.45 million; OTA

- Rwanda – Support regulators in conducting banking sector assessments, including evaluating bank balance sheets and executing stress tests, $0.35 million; OTA

- Southern Sudan – Assist the local authorities to develop tax administration and budget management capabilities to cope with impacts on the tax base of low and volatile petroleum prices; $1 million; USAID

- Program support funds will provide short-term assistance to USAID missions to design and implement effective interventions.

Recognizing that the impacts of the crisis on many poor and vulnerable populations are continuing to play out and remain highly unpredictable, the Secretary is reserving $18 million to address additional, unanticipated, high priority needs that may emerge in the second half of calendar year 2009. As part of this response, funds may be transferred to the Overseas Private Investment Corporation (OPIC) for targeted credit guarantees that complement those provided through the Development Credit Authority program.

$ 6 Million – Development Credit Authority (DCA)

Economic Growth ($6 million)

As a result of the crisis, microenterprise financing institutions (MFIs) worldwide have seen liquidity tightening and costs of borrowing rising. It is estimated that the number of unemployed could increase by 18 to 51 million worldwide, leading even more people to start microenterprises as a coping mechanism. Most donor interventions to address the crisis involve microfinance liquidity funds which will ease financial strains in the short term, but will mostly be disbursed in hard currency loans, exacerbating the foreign exchange risk exposure of MFIs. Furthermore, borrowing in hard currency may place stress on an MFI's cash flows and liquidity, as its debt payments increase and become more expensive if there are unfavorable exchange rate fluctuations or depreciation.

It is essential to support MFIs in securing access to local currency funds. In addition to the country-specific DCAs described in the previous sections, USAID will support rapid disbursing, multi-country DCA guarantees that mobilize local currency financing for MFIs operating in the eight target countries (El Salvador, Ghana, Haiti, Indonesia, Liberia, Mongolia, Tanzania, and Zambia) and if needed, in other countries, consistent with the criteria established in the Act. These programs will guarantee the portfolio of loans made to first and second tier MFIs. By partnering with international fund managers, who have and will raise private capital from American and international investors, USAID will support the launch of new funds that provide local currency lending to MFIs with terms up to five years. In mobilizing international wholesale investment in MFIs, USAID will expand the ability of MFIs to increase lending to microenterprises and entrepreneurs that are suffering during difficult economic and financial times. USAID will leverage its resources at least 17 to 1.

Previously Appropriated Funds

The USG confirms that it has conducted a review of previously appropriated funds and determined that there was no opportunity for re-programming to meet the needs of vulnerable populations affected by the crisis consistent with the purposes of this Act.