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**Deficiencies in U.S. Agency for International Development's
1985 Classification System and Reporting Format
for Assistance to Private Sector Development
and an Approach for Devising an Improved
Reporting System for 1987**

Contract Number PDC-0092-C-00-7101-00

REPORT NO. 1, PART 1 and 2

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Appendix A -- State Cable 239021

I. Introduction

In an ideal world, one would be able to measure the impact of development assistance programs immediately, but AID operates in an imperfect world where it may be many years before officials can determine whether they are achieving their goals with monies spent today. Even with the benefit of hindsight, officials must be sensitive to the fact that intervening actions and events can distort the impact of a program. Proper adjustments for such contingencies must be considered in any program assessment.

Given this imperfect world, AID officials must make some assumptions about programs and development approaches they are promoting today that they expect will encourage private sector development in the future. These are not naked assumptions but are based on AID's history of development assistance experience. One basic assumption is that assistance flowing directly to private sector end-users is more likely to lead to private enterprise growth than monies flowing to foreign governments with the same intended purpose.

In achieving AID's objective under Contract Number PDC-0092-C-00-7101-00 to develop a reporting format that will enable AID officials to classify and quantify those funds dedicated to promoting private sector activities, KVA & Associates (KVA) has held several meetings with AID officials to incorporate those AID issues relevant to this study and has reviewed and analyzed AID's FY 1985 reporting process.

This report outlines KMA's preliminary findings and proposed approach for improving AID's process for the future.

II. Objectives

The objectives of this initial report are 1) to analyze AID's past data collection and reporting procedures and practices for Agency expenditures devoted to encouraging private sector development in over 60 host countries as a means of identifying deficiencies affecting 1985 assessments, and 2) to outline an approach designed to address these deficiencies and lead to a more sound, accurate and cost-effective reporting system in coming years.

III. Deficiencies in 1985 Data Collection and Reporting Approach

A. The 1985 Approach

The origins of the problems in AID's 1985 data collection and reporting process lie in its apparent lack of a systematic approach. The essence of AID's 1985 approach is captured in State Cable 239021. (Appendix A).

The purpose of State Cable 239021 was basically to help the Agency "answer the question, 'What are we doing with the private sector'," in light of the increased emphasis that had been placed on implementing AID's "Second Policy Pillar" of stimulating and strengthening the private sector.

"What we are doing with the private sector" is by no means a clear and objective assessment goal. Only through reading the entire Cable is one able to understand what AID/W was attempting to achieve and even then that is susceptible to widely varying interpretations.

The major deficiencies in the 1985 approach was a failure to focus on the purpose for the data collection effort -- i.e., what goal was sought -- and whether the data collected contributed to answering the essential questions to determine whether that goal was being achieved.

In fact the Cable ended by citing several goals or "benefits," in paragraph 7 on page 2, which in reality were not well-served by the 1985 approach. They were stated as follows:

1. Demonstrate our commitment to the policy dialogue and private sector pillars in a systematic, rather than an anecdotal manner;
2. substantiate our claims of channelling more aid resources through private nongovernmental (profit and nonprofit) entities;
3. compile information in a convenient form that can be provided to AID and non-AID personnel to explain the progress made in pursuit of our policy dialogue and private sector initiative; and
4. continue our efforts to be responsive to the recommendations of the President's task force on international private enterprise.

Considering the 1985 report data alone, the reporting effort made little contribution to the achievement of these cited benefits.

It would have been preferable if a reporting form accompanied by proper instructions had been provided so that at the very least the data could have been consistently compiled. This possibly would have focused the effort on achieving its goal in an indirect way without regard to the explicit statement of such goal.

Given the varying goals outlined, the Cable was not able to provide any single measure of goal achievement. The overriding goal of the data collection seemed to have been, "We need to determine what progress has been made". Yet the Cable requested data primarily in the form of project expenditures by delineated categories without regard to the real impact of the spending -- i.e., whether progress was made.

First of all, "progress" cannot be objectively measured at this point. AID needs to develop a data base for establishing a valid benchmark for progress. Second, progress can only be assessed after years of program experience.

By necessity AID's approach at this point cannot be based on a goal of assessing progress, but must be based on stated assumptions that certain programs are likely to encourage private enterprise and on AID needs to measure its accomplishments in establishing those programs. Whether those programs accomplish their intended purpose would require an evaluation only after sufficient years have passed to observe an impact.

Futhermore, in the 1985 study there apparently were no base figures by which anyone could "substantiate [AID] claims of channelling more aid resources through private nongovernmental . . . entities."

It is also clear that there is not necessarily a positive relationship between expenditures and progress or accomplishment, but the 1985 approach implicit in the Cable language was based on the unstated assumption that "certain" expenditures denoted progress. These "certain" expenditures were those called "private sector categories." They are defined in the Cable roughly as follows:

- Cat. A -- direct assistance to the private sector;
- Cat. B -- indirect assistance to the private sector through a public sector entity whose goal is direct assistance to the private sector;
- Cat. C -- assistance to private voluntary and non-profit organizations;
- Cat. D -- assistance used to influence change in the host government policy environment for private sector development;
- Cat. E -- public sector expenditures to support traditional public service activities.

To refer to these groupings as "private sector categories" was obviously a misnomer in light particularly of "Category E". In fact, the implicit conflict in listing "public sector expenditures" as a "private sector category" apparently led to grave confusion among respondents as to what should or should not be included in Category E expenditures. As will be discussed in detail in Section III. C. on "The Results of the

1985 Approach," many Missions expressed their sense of confusion in trying to comply with the Cable's request in the face of contradictory terms.

Another problem with the 1985 categories is that they were not all parallel concepts, rather, they were more akin to mixing proverbial apples and oranges -- with the result that one simply could not make valid comparisons.

For example, the measure of "what progress has been made" or "what [AID is] doing with the private sector," as the case may be, varied from category to category. In Cat. A, the measure was based on the recipient -- a private sector entity. In Cat. B, the measure was not only based on the recipient -- that is, a governmental entity devoted to direct assistance to private enterprise -- but also on the end-user or secondary recipient of the funds -- that is, private enterprises OR "divestiture of parastatals."

Like Cat. B, Cat. C also focused on the recipient -- PVOs -- and then went on to distinguish between uses to which the PVO put AID's development assistance -- i.e., "delivery of public services" or "providing aid to the private sector". Cat. D addressing "policy dialogue and technical assistance" represented a catchall for expenditures, presumably to government recipients although this was not so stated, which promote "positive changes in the policy environment and climate for private sector growth."

The complexity of making decisions under a framework where categories are not mutually exclusive, but overlapping and lacking parallel features, should be obvious. This point can be illustrated by considering, for example, a hypothetical program that would involve a feasibility study on the macro-economic impact of parastatal divestiture funded by an AID grant to a local government private enterprise development agency which hires a think tank to conduct the study. Characterizing such a program in a consistent, variable and objective way given the guidance provided in the Cable would have been impossible.

Added to this confusion was Cat. E, which the Cable defined and described as follows:

- E. Other Mission Activities. This may include aid to government ministries for the purposes of improving public administration functions, assistance to parastatals or state owned enterprises, and assistance to mixed entities (quasi-public or quasi-private).

Pertinent instructions continued, "In order to allow some flexibility, you may structure your response to this section as it best fits your program" (emphasis added).

The result was chaos and wholesale inconsistency among and within Missions and Bureaus. Some apparently considered Cat. E to include all project expenditures that did not contribute to private sector development whereas others included only expenditures that were made to public sector recipients (other than those meeting the Cat. B or D definition) which had some expected impact on private sector development.

The obvious question is what category does a road fall into? Does it make a difference if the road is built by a private sector contractor paid by the local government with the proceeds of AID development assistance? Does it make a difference whether the road is constructed as a means of getting agricultural produce from the hinterland to a port facility?

Overall, the 1985 approach suffered most from its ill-defined purpose and objective. It appeared that AID officials knew they needed information but did not think out precisely what they wanted the information for and what information was needed to meet that goal. It should be noted though that this was AID's first attempt to collect and compile information on its efforts to support private sector development, and AID/W officials appeared to be under severe time constraints in organizing this effort. Many pitfalls would not have been apparent then. With the benefit of hindsight provided here, AID can begin to move forward in designing a more effective process for future years.

B. The 1985 Reporting Format

No standardized reporting format was offered by the Cable much less tested or qualified for use in over 60 Missions around the world. The 1985 reporting format was defined by a single paragraph in the Cable. It stated as follows:

Type of Information Needed. Information provided should include (1) a succinct description of the project/activity, breaking down the project into its component parts and assigning the component parts to a category. (2) project costs. Also broken down from the component parts of projects, and (3) stage of the project (with respect to LOP). Data reported should be for FY85 expenditures.

The problem with these instructions are obvious. Respondents had no criteria by which to know how to "break down" a project and then to make allocations by assigning the component parts to any given category. Considering the difficulty in making initial classification choices for an entire project, these difficulties are magnified when one has to allocate project costs among categories as well.

The resulting allocation would by necessity be based on the subjective reasoning of each individual respondent and not verifiable. A different person evaluating the same project could rarely be expected to make the same allocation unless he were given the same parameters and logical scheme employed by the previous person. But there was no such consistent framework available.

Moreover, many Missions and Bureaus did not understand the difference between obligated project funds and FY85 project expenditures. As a result, it was necessary to recalculate or verify all expenditures and life of project (LOP) -- i.e., obligation -- figures by reference to the Project Accounting Information System's Final 1985 report (PAIS).

Some attempt was made by the Cable to provide definitions. They focused primarily on the distinction between what constitutes the private sector and what constitutes the public sector. The definitions did little to contribute to the tougher questions raised by a confusing classification system and the Cable's failure to state a clear purpose for the data collection effort.

Aside from the overriding problem of an imprecise objective, at this point it is unclear whether a lack of definition or a lack of data contributed most to the deficiencies in the Mission reports. In particular, the Missions may not even have sound data on expenditures in any given fiscal year because of their methods of bookkeeping. Some FY85 expenditure figures reported by Missions, as described in detail in Section III. C. following, were larger than actual figures calculated in the PAIS because the Mission included FY84 obligations that were disbursed in FY85.

If the Mission's accounting methods make it difficult to distinguish between expenditures of different annual obligations, the Mission should be given figures known by AID/W as being correct and then asked to classify them as to their role in private sector development efforts. The difficulties faced by the Missions in providing accurate data can best be evaluated in field studies. Only then can an assessment of the 1985 Reporting Format deficiencies be complete.

C. The Results of the 1985 Approach

Incoming Cables from Missions and Bureaus varied considerably in their format, the amount and detail of information provided, the accuracy of data reported and the overall approach used in categorizing expenditures and obligation figures. The results of the 1985 data

collection and reporting approach were specifically limited by the following:

1. An inappropriate base for making calculations with large amounts of missing information;
2. Missions providing erroneous data;
3. Grossly inconsistent approaches taken in responses to State Cable 239021; and
4. Failure to include or appropriately treat obligations.

1. Calculation Base and Missing Information. Mission-reported expenditures varied widely from the PAIS figures. In large part, these expenditure variations were due to the fact that headquarters financial management is the central repository for expenditure numbers and the individual Missions deal with obligation figures.

Compounding the problem arising from the use of inappropriate figures, there was an enormous amount of missing information which made establishing a base for calculation extremely difficult. In terms of projects alone, approximately 957 projects showing expenditures in PAIS were reported by Missions and Bureaus out of an approximate PAIS universe of relevant projects of 2180. This left about 1220 projects or 55 percent of projects unaccounted for. In addition, over 60 projects not listed in PAIS were reported. In terms of expenditures, projects totaling \$1,000,159,000 in expenditures were reported out of a PAIS total of \$1,885,037,000. This left \$884,878,000 or 47 percent of expenditures unaccounted for. With such gross omissions, it was very difficult to draw sound conclusions about AID's 1985 efforts to promote private sector development.

Some discrepancies may be explained by limitations in PAIS -- that is:

- a. The PAIS report contains only projectized Economic Support Funds (ESF). Expenditures of ESF not allocated to projects, therefore are not reported in PAIS.
- b. PAIS provides cumulative figures only to the FY date it was published; therefore, additions to the LOP would be shown by year obligated.
- c. PAIS does not include supplemental Mission to Washington requests or approvals.

But these PAIS limitations would only explain the existence of the +60 projects reported that were not listed in PAIS and not the large number of project expenditures not reported.

The problem of omission of projects could be overcome by AID/W including all projects on a partially-completed reporting form submitted to the Missions for their verification and comment in finalizing their reports and making classifications. Even when projects were reported, the data was very sketchy. This was apparently due in large part to the absence of a standardized reporting format and to deficient instructions.

Sometimes Missions used titles that did not correspond to the numerical code of the project. Often there was no project description from which to determine whether the categories reported were appropriate. In those cases, only the Congressional Presentation (C.P.) descriptions were available to provide a better idea of spending categories. At times, the information was so brief and data was lacking elsewhere that there was no choice but to rely on the Mission categories.

The above-discussed problem could largely have been resolved simply by requesting program specific information. Forms could have been partially completed before being sent to the field -- identifying projects by number and providing other pertinent information.

In an attempt to overcome some of the PAIS limitations, non-projectized ESF data reported in the Cables was also included in the analysis. This information unlike projects listed in PAIS, could not be independently verified by AID/W financial management reports. Thus, Mission figures and descriptions had to be accepted.

Also, without a "base" figure for total ESF expenditures, it is not possible to determine what percent of ESF activities have been reported. Thus, ESF expenditures reported had to be lumped both with expenditure totals and expenditures reported. These ESF expenditures could be expected to lead to distortions in aggregate expenditure data because only 19 activities totalled \$639,052,000 in expenditures.

2. Erroneous Data. The Missions and Bureaus reported data that often contained many errors. FY85 expenditures were frequently obviously confused with LOP figures. Often, for reasons already discussed, reported expenditures posed absolutely no resemblance to PAIS expenditure figures. Recalculations had to be made by AID's contractor to ensure accuracy and consistency in compiling complete information for AID's Assistance to Private Sector Development report.

This filtering and verification effort was necessary to state analysis and expenditures data in PAIS terms supplemented by ESF figures. In cases where there was relative consistency between Mission/Office reported figures and PAIS, some comfort could be taken in the reliability of the reported data and AID accounting methods, but for the most part, figures varied widely between the Missions' calculations and AID/W's. Such discrepancies brought into question much of the credibility of the other data provided as well.

For the projects from Geographical Bureaus and their Missions, "total expenditures" were relatively easy to determine. Project numbers generally matched individual country codes found in PAIS. However, even in these instances, there were cases where project numbers other than those for the relevant country appeared in the country listings.

Where these referred to Regional or Bureau funding, the contractor was able to attempt to transfer those to the appropriate listings. A few projects may not have transferred, but apparently this would have resulted in only minimal duplication, if any at all, of expenditure data. This problem could have been alleviated by AID/W having prepared partially completed forms and forwarding them to Missions and Bureaus for response.

The Central Bureaus presented a particular problem because there is a great deal of difficulty in establishing a base total for expenditures without a PAIS total to refer to. Science and Technology expenditure

totals, for example, reflected the aggregate expenditures for the project number attributed to Science and Technology in the PAIS listing -- that is, the S&T "total expenditure" was calculated from the projects in the (926), (930), (931), (932), and (936) listings in PAIS. However, there were probably a minimum number of projects which neither the Bureau nor the contractor identified.

Establishing totals for the Bureau for Food for Peace and Voluntary Assistance (FVA), was even more difficult because ASHA project expenditures (some \$14 million in FY85) were not required to be included and they could not be distinguished from the other projects. Also, it appears that some PVO funding was not included because of the nature and timing of the grant mechanisms.

There appear to have been numerous errors in the categorizations provided by Missions and Offices. Based on PAIS information, the Cable project descriptions and the C.P., it seems clear that many expenditures were not assigned to the proper category and it was necessary for AID's contractor to adjust them. In many instances, varying interpretations of the private sector category descriptions could lead to different categorizations. Sometimes expenditures clearly fell in several categories but it was almost impossible from the available data to know what allocation was proper.

3. Inconsistent Approaches. Overall, information provided by Missions and Bureaus was not presented in any consistent format because,

as previously mentioned, no reporting form was provided in the Cable. Furthermore, the Missions and Bureaus took widely-varying approaches to interpreting the State Cable 239021 and responding to it.

Different Missions omitted different types of information -- for example, expenditures, project titles, project descriptions, etc. Some Missions provided only one page of summary data and others provided long descriptions of what they were doing to aid the private sector without relating it to specific projects of expenditures. Many Missions submitted their concept of "expenditure figures" calling it "costs", LOP obligations, etc. Generally, these numbers bore no resemblance to PAIS expenditure figures. For example, the Costa Rica Mission reported, in great depth, expenditures of minimal levels which were insignificant in terms of overall expenditures. Also their many-paged report did not identify projects by either number or accepted titles of projects.

Also, Missions apparently interpreted the categories differently. Some included expenditures in Cat. E as other private sector expenditures. Others considered Cat. E as the total of public service expenditures and others merely omitted Cat. E expenditures because they did not consider them private sector expenditures and said everything not listed in Categories A-D was public sector spending.

Distortions created by the later approach were corrected to a degree by AID's contractor assigning almost all unreported expenditures in each of the Missions and Bureaus to Category E. In some cases, it was clear,

based on the project title in PAIS (e.g., mentioning a PVO), that assignment to Cat. E was inappropriate so some project categorizations deviated from this rule. With clearer decision criteria provided to the field, this problem might have been avoided.

The 1985 approach was useful only in allowing AID to make conservative estimates of the minimum allocation of expenditures to the private sector. In reality, the actual expenditure levels could very well be higher, because not all unreported project expenditures are in the public sector. Without firsthand project information provided by the Missions, though it would have been difficult, if not impossible, to make an appropriate allocation.

Given these varying approaches, there was not enough commonality among responses provided under Cat. E to develop subcategories for that category and those responses. There was a great deal of confusion, however, as to what should and should not have been included in Cat. E. This confusion was expressed frequently (e.g., Egypt noting the contradiction in terms -- i.e., public sector spending as a private sector category), and it may have accounted for the large number of unreported projects in some Missions.

In order for AID to obtain a comprehensive understanding of accomplishments in promoting private sector development, it needs to have a well-defined resource base from which to calculate percentages attributable to the public and private sectors. Clear and consistent

instructions are essential, and both public and private sector programs must be completely reported or dealt with in some other meaningful fashion.

4. Failure to Include or Consider Obligations. When a project is developed, an early component of the description of that project is what it will be permitted to cost in budget terms. This is expressed in a dollar amount known as its obligation -- i.e., the amount of money set aside and intended to be spent to pay for the project.

This is a figure which should also be reported and kept distinct from the expenditure figure because it will show the original level of commitment to a given project. Clearly, many Missions had trouble distinguishing between obligation and expenditure figures in the FY85 reporting process. If there are changes in obligations -- either increasing or decreasing -- these changes can be helpful in explaining the level of resources intended to achieve a desired goal.

For AID's new reporting mechanism to ultimately gauge a program's impact or measure it against subsequent developments in a particular country, use of obligation figures rather than expenditure figures would be more appropriate. This is particularly true given the difficulties outlined earlier in Missions attempting to separate previous year obligations from current year expenditures.

5. Miscellaneous. The percentage of private sector aid was based on PAIS expenditures for reported and unreported projects plus ESF figures reported in Cables. This figure would be rendered more meaningful by considering the difference between reported projects and total project expenditures listed in PAIS.

In some cases, it appears that the Mission felt that it should report only private sector expenditures and everything else was public sector. In other cases, the Mission simply did not report a large number of projects.

In any event, while Mission intentions were not explicit on this point, the percentage of reported expenditures were an indication of the degree of reliability in the overall percentages for private sector expenditures. For this reason, all projects in a Mission should be listed by AID/W on a partially-completed reporting form, leaving to the Mission the responsibility of providing the necessary field data and classifications.

Percentage figures in the FY85 final report also appear to suffer from some error because of the base figure used -- "PAIS Total FY85 Actual Expenditures for Active Projects". It appears that this figure included adjustments for deobligated funds with a resultant decrease in the total expenditure figure.

This problem could be dealt with by focusing solely on obligation figures and having the Missions note any deobligations or other adjustments that AID/W was unaware of. Additionally, PAIS excluded projects "completed" or "terminated" in FY85 for which there may or may not have been expenditures in FY85. However, the margin of error would probably have been negligible in affecting the overall FY85 figures.

IV. Proposed Approach for Achieving an Improved Reporting System in 1987.

A. Summary.

The ultimate objective of KVA's efforts is to assist AID in developing an easily understood reporting mechanism by which field and regional officials can distinguish those projects that are intended to promote private sector development from others that serve the commonweal and then classify those projects in a meaningful way. This information will allow AID management to better assess AID accomplishments in promoting private sector development in host countries.

As the first step, KVA will work with AID officials to define clearly AID data needs and the purposes for which the data will be used. This exercise will help to ensure that Mission and Bureau personnel will not be burdened with the collection of superfluous data and can be allowed to concentrate on meeting the essential requirements of the

reporting effort. This step will also help AID establish a clear statement of goals so that the data sought will indeed satisfy the Agency's needs.

Consistent with AID goals, KVA will next work with AID officials to refine the FY85 classification system to best meet the Agency's information needs and to develop appropriate measures to assess AID accomplishments in promoting private sector development. As an essential element in this endeavor, KVA will conduct a field analysis in one Mission to understand better how Missions interpret data and instructions and maintain information. This field work will serve as a basis for designing a draft data collection instrument with appropriate instructions intended to ensure a uniform and meaningful reporting mechanism throughout AID Missions and Bureaus.

Given the diversity in AID programs and host countries, KVA will then field test its model reporting format and approach in another country as a means of pretesting and to determine what further refinements, if any, are needed. Finally, KVA will present a report on the results of its team investigation and analyses in the two countries selected for study.

This research, analysis and investigation is essential to developing a pilot format for data collection and reporting which will enable KVA to address problems of confusion in the prior reporting format and ultimately provide a prototype model for an effective data collection system on AID's private enterprise development efforts.

B. Steps.

Step 1: Identification of U.S. AID Information Needs, Policies, and Procedures. To provide a basis for assessing AID accomplishments in promoting private sector development, it is essential to understand AID's information needs, policy directives and the criteria established to ensure achievement of those objectives. This effort would include an examination of the guidelines and definitions established to assist AID staff evaluate the anticipated private enterprise development impact of a loan or grant.

The review conducted by KMA, through deliberations with AID management, will help it appreciate weaknesses, if any, implicit in AID procedures and definitions. For example, ambiguities may exist in criteria that might lead AID field officials fully believing that a program encourages private enterprise, to misreport data because of confusing, inconsistent or ambiguous guidance.

Meetings have already been held with representatives of the Central and Geographical Bureaus to solicit their views. Discussions with the Central Bureaus have been focused on the need for commonality of terms and uniformity of definitions for such terms as private sector, private enterprise, small or micro-entrepreneur and subsistence support.

In meetings with the Geographical Bureaus, the variations and nuances of differences from one country to another have been raised and

will be taken into consideration. These are important points to understand so that the ultimate format and approach recommended will allow for such distinctions and at the same time permit a uniform reporting vehicle to be used by all reporting Missions and Bureaus.

Utilization of financial data has also been discussed with the Planning and Budget Office, which deals with figure in obligation terms and the Office of Financial Management, which tracks expenditures through the Project Accounting Information System (PAIS).

Information of importance to AID/W may not be relevant to or maintained properly by Missions. Thus, Missions and Regional Offices may be called upon to provide types of information that they have difficulty verifying or that in the aggregate is not useful to AID/W. These prior discussions with AID/W officials are intended to ensure that data collection objectives are appropriate to AID/W's needs.

Step 2: Establishment of Parameters and Specific Structuring of Approach. Following deliberations with AID/W officials, KMA will be able to establish parameters for its review and specifically structure its approach. In particular, KMA will focus on the data requirements which will best satisfy AID/W needs.

For example, it is clear that figures for obligations, rather than expenditures, appear to be most relevant and meaningful to AID management. As noted in the preceding discussions, obligation figures

may also overcome data collection impediments in the field. For example, this would avoid the problem of citing expenditures in a given year which are derived from obligations of previous fiscal years. Accordingly, efforts to refine guidance and reporting would focus on obligation figures.

Similarly, discussions with AID officials and review of problems in the FY85 project expenditure reports supports revision of the "categories" used in the earlier reporting effort. As discussed in the preceding sections, in AID's FY85 reporting effort, assistance was broken down into the following categories:

- Cat. A -- direct assistance to private sector entities;
- Cat. B -- direct assistance to public sector entities for disbursement to the private sector;
- Cat. C -- assistance to PVO's;
- Cat. D -- assistance in support of national macro-economic policy changes; and
- Cat. E -- assistance to the public sector for general purpose public service activities and in support of state-owned enterprises.

FY85 expenditures were then allocated or assigned, as the case may be, to these various categories.

A more appropriate approach to meet AID needs, and possibly one which is easier to administer and verify, might involve a different structure -- one based on categories indicating "recipient" and "intended use or program purpose". KVA would plan to examine how data would be

reported if the categories were revised to specify mutually exclusive classes of immediate recipients of AID funds with subcategories indicating if and how those funds promoted private sector development.

For example, a more meaningful, yet simpler, classification system might involve only three primary categories with one miscellaneous category. They can be summarized as follows:

- Cat. A -- direct assistance to private sector entities in the host country;
- Cat. B -- direct assistance to PVO's;
- Cat. C -- direct assistance to host country or regional public sector entities; and
- Cat. D -- direct assistance to recipients which do not fall into the other categories.

Cat. D, for example, could include a U.S. consulting firm hired to study the impact of tax rate changes in a host country. Clearly, such efforts are intended to promote private sector development in a host country, but in this case, the funds would not even reach that country.

Within each of these categories, subcategories would be based on the "program purpose" or "use of funds". Anticipated subcategories would include the following:

- Cat. A1 -- direct assistance to private sector entities for the purpose of promoting private enterprise.

This would include, for example, farm implements and seed for farmers to increase production for market as well as most types of activity described for Category A in the 1985 reporting process.

Cat. A2 -- direct assistance to private sector entities
for humanitarian or social purposes.

This would include, for example, farm implements and seed for farmers to achieve subsistence levels or food aid distributed directly by AID, as well as other social and humanitarian assistance flowing directly from AID to individuals or private sector entities. Obviously, the figures would not be considered or calculated as assistance promoting private enterprise.

Category B -- assistance to PVOs -- would similarly be divided into B1 and B2 subcategories to distinguish between activities which promote private enterprise and those that serve other purposes, respectively. A third sub-category, B3, might be appropriate for studies in the nature of "policy dialogue" conducted by a PVO -- like a private university -- funded by AID to analyze the impact of import/export controls for the purpose of supplying the host government with data to support loosening of regulations that discourage private enterprise.

As will be discussed with regard to Category C, there will also be a subcategory for policy dialogue when the recipient is a government entity. These subcategories can be added together to provide AID/W with a separate aggregate figure for policy dialogue without destroying the structured, logical approach proposed.

Cat. C, involving AID assistance to host governments or quasi-governmental units, as well as regional public sector entities such as regional development banks, would be similarly divided by anticipated use

of the funds or intended purpose of the program. Subcategory C1 would, for example, cover direct assistance from the governmental entity to the private sector. This would be similar to the FY85 Category B classification. Subcategory C2 would involve purely public sector activities and Subcategory C3 would address policy dialogue uses. It is anticipated that a Subcategory C4 might be necessary to distinguish between public projects that have as their direct objective the encouragement of private enterprise but do not fund the private sector directly. For example, an educational program designed specifically to teach entrepreneurship and business skills, as opposed to more generalized educational skills.

Obviously, there will be some close calls. KMA's field work will help to anticipate those situations and to identify the specific definitions and guidelines that Mission personnel will need. Field testing may also indicate that additional subcategories are necessary. The objective though will be to keep the format and data requirements relatively simple. This approach will both limit the burden on Mission personnel and assure AID/W officials that the information they are receiving is more reliable and accurate than a complex, less structured reporting scheme could be expected to provide.

As noted with regard to "policy dialogue", another advantage in this approach is that it should be possible for AID credibly to group subcategories. This will allow AID to defensibly and realistically measure its total financial commitments to private sector development.

For example, projects falling in Cat. A1, B1 or C1 could all be viewed as contributing to private enterprise, yet by distinguishing among immediate recipients, AID/W officials can still know the recipient mix they are achieving and consider the merits and disadvantages of using other intermediaries for the management and distribution of resources to the private sector.

Step 3: Preliminary Field Research. This stage of examination would involve working with AID field officials to refine the approach to be taken in conducting the subject study and completing the analysis necessary to design a data collection and reporting system. How decision-making is conducted and programs are viewed in practice in the field may vary greatly from the ideal world of guidance outlined by headquarters offices.

Adjustments for any discrepancies between theory and reality can be addressed through on-site examination of operations and decision-making in a Mission. A country, with a relatively large portfolio distributed broadly among sectors would offer an excellent opportunity for development and testing of data collection and reporting approaches.

This preliminary field research effort will focus on the Mission's interpretation and reporting under the FY85 reporting and classification system as a means of identifying both strengths and weaknesses in the earlier approach that would not be apparent from a review and critique in

the abstract. It will also consider how data collection and reporting might occur under a revised system for FY87 using the categories and subcategories outlined in Step 2.

Step 4: Compilation and Analysis of Data. KMA would review the relevant 1985 Mission cable and the final report and compare it with the interpretations and views of Mission staff to identify additional pitfalls in the FY85 reporting process and to examine ways in which to strengthen the 1987 process. On the basis of these discussions in the field, and the earlier ones in AID/W, KMA will design a more appropriate survey instrument, as outlined in Step 6.

This approach would ensure enhanced reliability because it would focus on the relevant issues and reduce the possibility of ambiguity arising from misinterpreting data which often incidentally includes information about private enterprise development impacts. The specific data needed would, of course, again be dependent on the AID's needs and interests with respect to its role in private enterprise development.

Discussions with AID officials and Mission staff will be instrumental in defining the factors which AID feels are significant in evaluating its private enterprise development efforts.

Step 5: Interim Reporting. KMA will develop findings based on its analyses and draw conclusions about the process needed to assess AID

accomplishments in promoting private sector development efforts in the host country. This will be in the form of a detailed written trip report.

Step 6: Revised Reporting Format Pilot. Based on the detailed written trip report, consideration of the field analysis experience and deliberation with AID/W officials, KMA will develop a Pilot Reporting Instrument. This will include a reporting format with guidance for collecting, analyzing, compiling and reporting the required data.

Step 7: Final Field Research. Using the draft 1987 data collection and reporting approach model, KMA will visit another Mission in a different region to pre-test its reporting model before a final process is recommended that would be applicable to all Missions and Bureaus. In addition to pre-testing, this field research will also provide an opportunity for further refinement in AID's 1987 process approach.

Step 8: Follow-up Reporting. KMA will provide a detailed written trip report on its experience using the Pilot Reporting Instrument. This report will outline any pitfalls that were encountered as well as findings and conclusions about the proposed data collection and reporting approach.

Step 9: Final Recommendations. Based upon AID/W needs, the experience in the field studies and the information compiled in researching and analyzing appropriate approaches for collecting and reporting data, KMA will make recommendations on improvements in AID's private sector support reporting system, including a prototype reporting system.

APPENDIX A

State Cable No. 239021

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OUTGOING
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TAGS:

SUBJECT: CATEGORIZING A.I.O.'S USE OF THE PRIVATE SECTOR

AEFTTEL: STATE 239021

WE APPRECIATE THE EFFORT THAT USAID/BANJUL IS PUTTING INTO RESPONDING TO OUR REQUEST FOR INFORMATION. PER YOUR REQUEST, COPIED BELOW IS THE TEXT OF STATE 239021. AS ANALYSIS OF WORLDWIDE DATA HAS BEGUN, PLEASE CABLE YOUR RESPONSE BY OCTOBER 26. THANK YOU.

1. INTRODUCTION. THE PRIVATE SECTOR APPROACH HAS BEEN AN IMPORTANT A.I.O. FOCUS DURING THE PAST FOUR YEARS, STARTING WITH ITS PROMINENCE AS ONE OF THE FOUR PILLARS AND CONTINUING IN MANY OF THE AGENCY'S POLICY PAPERS AND THE ESTABLISHMENT OF THE BUREAU FOR PRIVATE ENTERPRISE. THE ADMINISTRATOR HAS DIRECTED THAT THE AGENCY GIVE INCREASED ATTENTION TO THE IMPACT OF ALL A.I.O. ACTIVITIES ON PRIVATE SECTOR DEVELOPMENT.

MISSIONS HAVE MADE GREAT STRIDES WORKING WITH INDIGENOUS PRIVATE ENTERPRISES AND OTHER PRIVATE SECTOR ENTITIES DURING THE PAST FEW YEARS. WE NOW NEED TO DETERMINE WHAT PROGRESS HAS BEEN MADE. IN SOME INSTANCES,

MISSIONS HAVE SELECTED PRIVATE SECTOR ALTERNATIVES TO PUBLIC SECTOR MODES OF OPERATION IN AREAS WHERE WE HAVE TRADITIONALLY LIMITED OURSELVES TO THE LATTER. IN OTHER INSTANCES, MISSIONS HAVE SOUGHT TO EXPAND THE USE OF PRIVATE SECTOR CHANNELS IN AREAS WHERE WE ALREADY USE THEM, AND SOME MISSIONS HAVE WORKED WITH LOG GOVERNMENTS TO CHANGE POLICIES THAT WOULD BENEFIT THE PRIVATE SECTOR.

2. REQUEST FOR INFORMATION. THE PURPOSE OF THIS CABLE IS TO REQUEST FROM MISSIONS AND OTHER A.I.O. OFFICES OVERSEAS INFORMATION ON THE EXTENT OF THEIR USE OF THE PRIVATE SECTOR AND THE PRIVATE SECTOR EMPHASIS IN THEIR PROGRAMS. WE WOULD LIKE ALL MISSIONS TO CATEGORIZE THEIR ENTIRE ONGOING PROGRAMS, PROJECTS, AND OTHER ACTIVITIES INTO ONE OF THE FIVE CATEGORIES DESCRIBED IN PARA 3. MISSIONS SHOULD ALSO RELATE THE LEVEL OF PRIVATE SECTOR ASSISTANCE IN EXISTING PROGRAMS TO THE TOTAL MISSION PORTFOLIO, AS WELL AS MAKE SIMILAR PROJECTIONS FOR FY 16. WE HOPE THAT YOUR RESPONSES TO THIS CABLE WILL HELP US ANSWER THE QUESTION QUOTE WHAT ARE WE DOING WITH THE PRIVATE SECTOR? UNQUOTE

3. PRIVATE SECTOR CATEGORIES. BASED ON AN EXAMINATION OF A.I.O. PROJECTS, WE HAVE DEVELOPED FIVE CATEGORIES OF A.I.O. ACTIVITIES THAT UTILIZE, OR RESULT IN BENEFITS FOR, THE PRIVATE SECTOR. THE FIVE CATEGORIES ARE:

A. ASSISTANCE DIRECTLY TO AND THROUGH PRIVATE SECTOR ENTITIES. THIS MAY TAKE ONE OF SEVERAL FORMS INCLUDING, BUT NOT LIMITED TO:

1 - ASSISTANCE DIRECTLY TO A PRIVATE INTERMEDIATE INSTITUTION (SUCH AS A PRIVATE IFI), WHICH IN TURN PROVIDES SOME SERVICE TO AN END USER;

2 - ASSISTANCE DIRECTLY TO AN END USER (SUCH AS A TANNERY IN KENYA TO IMPROVE ITS OPERATIONS);

3 - ASSISTANCE TO A PRIVATE SECTOR BUSINESS OR TRADE ASSOCIATION.

B. ASSISTANCE THROUGH A GOVERNMENT ENTITY THAT HAS AS ITS GOAL DIRECT ASSISTANCE TO PRIVATE ENTERPRISES. SEVERAL ACTIVITIES MAY FALL UNDER THIS CATEGORY:

1 - FINANCIAL FLOWS THROUGH A CENTRAL BANK THAT ARE ON-LENT TO AN IFI OR END-USER; OR

2 - DIVESTITURE OF PARASTATALS.

C. ASSISTANCE TO PVOS AND NON-PROFIT ENTITIES.

1 - AS A MEANS OF DELIVERY OF PUBLIC SERVICES; OR

2 - AS A MEANS OF PROVIDING AID TO THE PRIVATE SECTOR.

D. UTILIZATION OF POLICY DIALOGUE AND TECHNICAL ASSISTANCE THAT HAS AS ITS GOAL POSITIVE CHANGES IN THE POLICY ENVIRONMENT AND CLIMATE FOR PRIVATE SECTOR GROWTH (SUCH AS INCREASING PRIVATE ENTERPRISES' ACCESS TO FOREIGN EXCHANGE, REMOVING INVESTMENT AND EXPORT BARRIERS, OR THE FINANCING OF POLICY ANALYSES THAT EXAMINE THE CONSTRAINTS TO PRIVATE SECTOR GROWTH).

E. OTHER MISSION ACTIVITIES. THIS MAY INCLUDE AID TO GOVERNMENT MINISTRIES FOR THE PURPOSES OF IMPROVING PUBLIC ADMINISTRATION FUNCTIONS, ASSISTANCE TO PARASTATALS OR STATE OWNED ENTERPRISES, AND ASSISTANCE TO MIXED ENTITIES (QUASI-PUBLIC OR QUASI-PRIVATE). IN ORDER TO ALLOW SOME FLEXIBILITY, YOU MAY STRUCTURE YOUR RESPONSE TO THIS SECTION AS IT BEST FITS YOUR PROGRAM.

4. TYPE OF INFORMATION NEEDED. INFORMATION PROVIDED SHOULD INCLUDE (1) A SUCCINCT DESCRIPTION OF THE PROJECT/ACTIVITY, BREAKING DOWN THE PROJECT INTO ITS COMPONENT PARTS AND ASSIGNING THE COMPONENT PARTS TO A CATEGORY, (2) PROJECT COSTS ALSO BROKEN DOWN FOR THE COMPONENT PARTS OF PROJECTS, AND (3) STAGE OF THE PROJECT WITH RESPECT TO LOPI. DATA REPORTED SHOULD BE FOR FIVE EXPENDITURES.

5. COMPLIANCE DATE. PLEASE RESPOND BY AUGUST 24, 1985.

6. PRIVATE SECTOR DEFINITION. WE OFFER THE FOLLOWING DEFINITIONS OF QUOTE PRIVATE SECTOR UNQUOTE ENTITIES AS A GUIDE FOR CATEGORIZING YOUR PROGRAMS. THE KEY TO DETERMINING WHAT IS PRIVATE SECTOR LIES IN THE ISSUE OF OWNERSHIP. IF THE OWNERSHIP OF AN ENTITY RESTS WITH THE PRIVATE SECTOR (INDIVIDUALS, INSTITUTIONAL INVESTORS ETC.) RATHER THAN THE GOVERNMENT, THEN THE ENTITY MAY BE CONSIDERED QUOTE PRIVATE. UNQUOTE

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UTILIZING THIS APPROACH, A PRIVATE ENTERPRISE IS A FOR-PROFIT BUSINESS THAT IS OWNED BY PRIVATE INDIVIDUALS OR INVESTORS), WITHOUT GOVERNMENT OWNERSHIP. CONVERSELY, AN ENTERPRISE THAT IS OWNED BY THE GOVERNMENT IS A PUBLIC CORPORATION OR PARASTATAL. AN ENTERPRISE THAT IS

INVESTORS IS A QUASI-PUBLIC OR QUASI-PRIVATE FIRM, DEPENDING ON THE LEVEL OF OWNERSHIP BY EACH PARTY. THESE MIXED ENTERPRISES SHOULD NOT BE CONSIDERED AS PRIVATE ENTERPRISES.

A SIMILAR APPROACH MAY BE FOLLOWED FOR ENTITIES THAT ARE NONPROFIT. A UNIVERSITY MAY BE PUBLIC OR PRIVATE. A PUBLIC UNIVERSITY IS PART OF A NATIONAL, STATE-WIDE, OR MUNICIPAL SYSTEM, GENERALLY RECEIVES SOME FUNDING FROM THE RESPECTIVE GOVERNMENT, AND IS CONTROLLED BY A STATE-OR CITY-APPOINTED BOARD OF REGENTS. A PRIVATE UNIVERSITY IS NOT OWNED BY THE GOVERNMENT; IT EXISTS BY RELYING ON ITS ENDOWMENT, TUITION AND FEE COLLECTIONS AND OTHER REVENUE RAISING ACTIVITIES; AND IS GENERALLY MANAGED BY A BOARD OF TRUSTEES. ACCEPTANCE OF FUNDS FROM A GOVERNMENT AGENCY TO CARRY ON A PARTICULAR ACTIVITY DOES NOT AFFECT OWNERSHIP AND SHOULD BE SEEN AS NOTHING MORE THAN A CONTRACT.

ENTITIES SUCH AS GOVERNMENT-OWNED MARKETING BOARDS, WHOSE SOLE ACTIVITY IS TO CONTROL PRICES AND MAKE DECISIONS ABOUT RESOURCE ALLOCATIONS AND PRODUCTION, SHOULD BE CONSIDERED AS REGULATORY BODIES. IF SUCH ENTITIES TAKE TITLE OR OWNERSHIP OF GOODS AND COMMODITIES THEN THEY ARE PUBLIC CORPORATIONS.

BY WAY OF ADDITIONAL EXPLANATION OF THE CATEGORIES; ACTIVITIES SUCH AS INVESTMENT PROMOTION OR EXPORT DEVELOPMENT WOULD FALL UNDER CATEGORY A IF SUCH EFFORTS ARE CONDUCTED THROUGH PRIVATE ENTERPRISES OR PRIVATE MEMBERSHIP OR TRADE ASSOCIATIONS. IF A MISSION RELIES UPON A GOVERNMENT EXPORT OR INVESTMENT PROMOTION COMMISSION, THEN THIS ACTIVITY SHOULD BE PLACED UNDER CATEGORY B.

7. BENEFITS TO A.I.B. OF THIS EFFORT. ALTHOUGH THIS EFFORT MAY APPEAR TO BE AN ONEROUS BURDEN, YOU SHOULD BE AWARE OF ITS BENEFITS TO THE AGENCY. THIS EFFORT SHOULD BE VIEWED AS AN OPPORTUNITY TO (1) DEMONSTRATE OUR COMMITMENT TO THE POLICY DIALOGUE AND PRIVATE SECTOR PILLARS IN A SYSTEMATIC, RATHER THAN ANECDOTAL MANNER, (2) SUBSTANTIATE OUR CLAIMS OF CHANNELLING MORE AID RESOURCES THROUGH PRIVATE NONGOVERNMENTAL (PROFIT AND NONPROFIT) ENTITIES, (3) COMPILE INFORMATION IN A CONVENIENT FORM THAT CAN BE PROVIDED TO A.I.B. AND NON-A.I.B. PERSONNEL TO EXPLAIN THE PROGRESS MADE IN PURSUIT OF OUR POLICY DIALOGUE AND PRIVATE SECTOR INITIATIVE, AND (4) CONTINUE OUR EFFORTS TO BE RESPONSIVE TO THE RECOMMENDATIONS OF THE PRESIDENT'S TASK FORCE ON

INTERNATIONAL PRIVATE ENTERPRISE. THIS EFFORT SHOULD BE VIEWED AS A DATA-GATHERING ACTIVITY, AND IS NOT DESIGNED TO ABROGATE MISSION AUTHORITY OR SUBVERT FIELD DELEGATION. SHULTZ

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