

# Development Co-operation Review

## UNITED STATES

Development Assistance Committee



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

## ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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## **FOREWORD**

The Development Assistance Committee (DAC) conducts periodic reviews to improve the individual and collective development co-operation efforts of DAC members. The policies and efforts of individual members are critically examined approximately once every four years. Five or six programmes are examined annually. The OECD's Development Co-operation Directorate (DCD) provides analytical support and is responsible for developing and maintaining the conceptual framework within which the Peer Reviews are undertaken.

The Peer Review is prepared by a team, consisting of representatives of the Secretariat working with officials from two DAC members who are designated as examiners. The country under review provides a memorandum setting out the main developments in its policies and programmes. Then the Secretariat and the examiners visit the capital to interview officials, parliamentarians, as well as civil society and NGO representatives of the donor country to obtain a first-hand insight into current issues surrounding the development co-operation efforts of the member concerned. Field visits assess how members are implementing the major DAC policies, principles and concerns, and review operations in recipient countries, particularly with regard to poverty reduction, sustainability, gender equality and other aspects of participatory development, and local aid co-ordination.

The Secretariat then prepares a draft report on the member's development co-operation which is the basis for the DAC review meeting at the OECD. At this meeting senior officials from the member under review respond to questions posed by DAC members led by the examiners. These questions are formulated by the Secretariat in association with the examiners. The main discussion points and operational policy recommendations emerging from the review meeting are set out in the Main Findings and Recommendations section of the publication.

This publication contains the Main Findings and Recommendations as agreed by the Development Assistance Committee following its review on 22 October 2002 at the OECD, and the report prepared by the Secretariat in association with the examiners, representing France and Sweden, on the development co-operation policies and efforts of the United States. The report is published on the authority of the Secretary-General of the OECD.

Jean-Claude Faure  
DAC Chairman

## ACRONYMS

AGOA	African Growth and Opportunity Act
ACVFA	Advisory Committee on Voluntary Foreign Aid
AIBE	Access to Intercultural Bilingual Education
CDC	Centres for Disease Control and Prevention
DAC	Development Assistance Committee
ESF	Economic Support Fund
FY	Fiscal Year
GAO	General Accounting Office
GAVI	Global Alliance for Vaccines and Immunisation
GDP	Gross domestic product
GNI	Gross national income
GOU	Government of Uganda
GPRA	Government Performance and Results Act
GSP	Generalised System of Preferences
HIPC	Heavily-Indebted Poor Country
IDA	International Development Association
IDCA	International Development Co-operation Agency
IMF	International Monetary Fund
LDC	Least developed countries
MCA	Millennium Challenge Account
MDG	Millennium Development Goal
NGO	Non-governmental organisation
NSC	National Security Council
OA	Official aid
ODA	Official development assistance
OMB	Office of Management and Budget
OPIC	Overseas Private Investment Corporation
PCC	Policy Co-ordination Committee
PEAP	Poverty Eradication Action Plan
PPC	Policy and Programme Co-ordination
PROALCA	Programme for Central America
PRSP	Poverty Reduction Strategy Paper
PVO	Private voluntary organisation

TASO	The AIDS Support Organization
UNDP	United Nations Development Programme
UNFPA	United Nations Fund for Population Activities
USAID	United States Agency for International Development
USG	United States Government
WFP	World Food Programme
WTO	World Trade Organisation

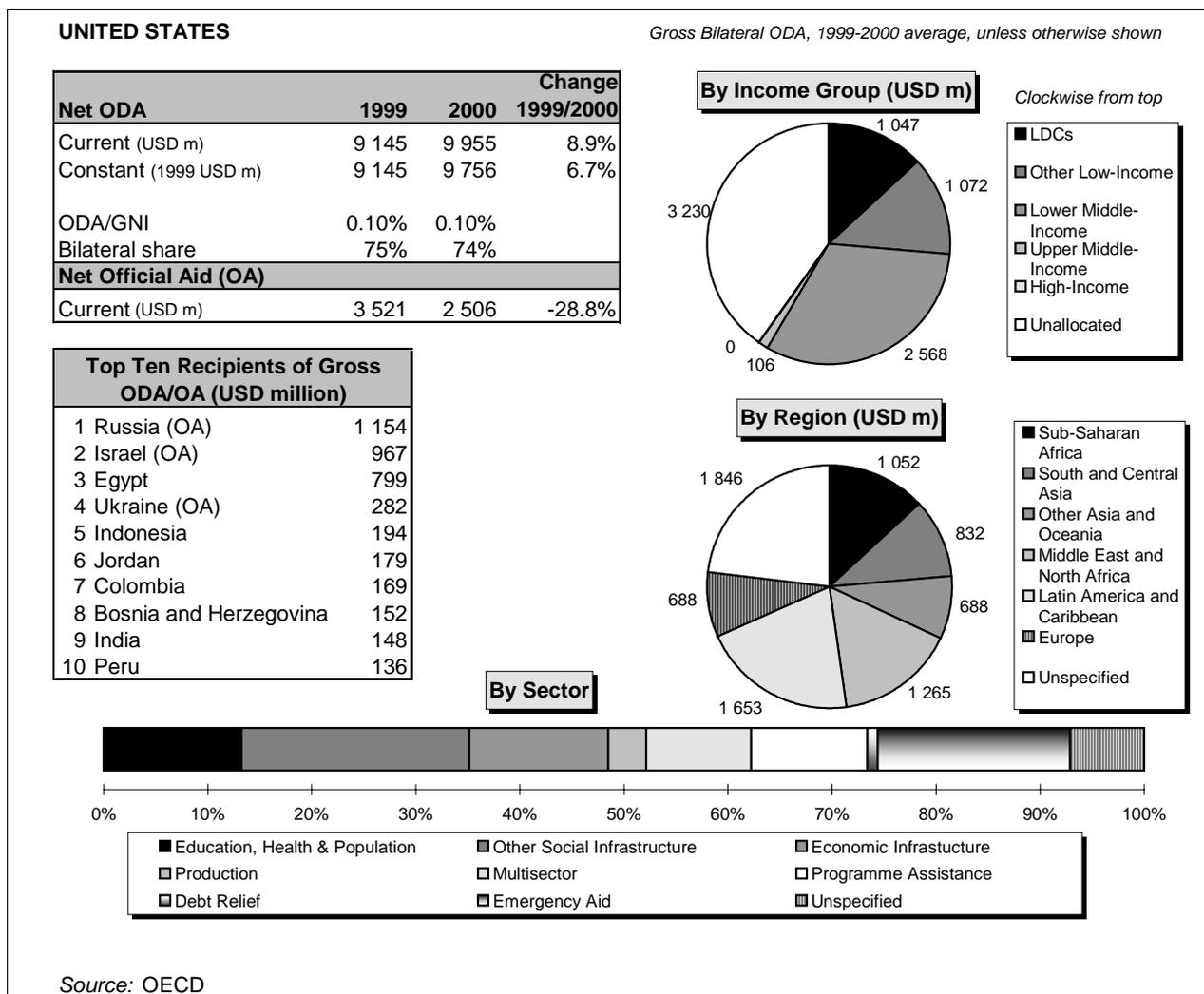
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**Signs used:**

USD	United States dollar
()	Secretariat estimates in whole or part
-	Nil
0.0	Negligible
..	Not available
...	Not available separately but included in total
n.a.	Not applicable

Slight discrepancies in totals are due to rounding

### United States' aid at a glance<sup>1</sup>



1. This Peer Review uses calendar year 2000 ODA data throughout, except in specifically noted instances where 2001 summary data are available.

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## **DAC'S MAIN FINDINGS AND RECOMMENDATIONS**

The United States has a substantial impact on promoting economic growth and reducing poverty in developing countries due to the large size of its economy, its ability to influence world opinion and action and its weight within the international donor community. In 2001 the United States was the largest donor in the OECD's Development Assistance Committee (DAC) in volume terms, reporting net official development assistance (ODA) of USD 10.9 billion, more than one-fifth of the DAC total. This represented 0.11% of its gross national income (GNI), the lowest ODA/GNI ratio in the DAC and below the DAC average country effort of 0.40%. President Bush recently announced a bold new proposal, the "Millennium Challenge Account" (MCA) for an additional USD 5 billion annually by 2006. If approved by Congress, the MCA will consolidate the American position as the largest donor, and slightly improve the country's ODA/GNI performance.

The American "checks and balances" system of government has some important ramifications for United States development co-operation. This approach implicates a wide range of stakeholders in budget decision-making, especially through the Congress. Flexible approaches to compromise are standard features of the American system, especially for issues of a short-term nature that respond to national or special interests. Addressing long-term issues related to development co-operation can prove more difficult because they lack urgency or a sufficiently strong and influential domestic constituency. Several of the issues raised in the 1998 DAC Peer Review are being addressed by the current Administration. However, some important development issues, including those relating to Congress, to the basic structure of American aid administration, or to the promotion of policy coherence for development, have proven more resistant to change and are noted again in this review.

### **Overall framework and new orientations**

#### *Seeking a common development vision*

The growing number of official United States Government (USG) entities that deliver foreign aid (perhaps as many as fifty separate government units) operate with considerable autonomy. While they carry out their functions under the general guidance of the Secretary of State, they have sometimes surprisingly weak linkages to each other and relatively modest systematic opportunity to co-ordinate their respective parts of United States Government aid. The largest among these entities is the United States Agency for International Development (USAID), which now delivers some one-half of American ODA and is the lead USG development co-operation agency. Similarly, the USG does not work from a single strategic vision of aid although the development chapter of President Bush's National Security Strategy is an important step in this direction. Rather, it relies more on a pragmatic approach that addresses development assistance themes of common operational concern among USG agencies and other pertinent actors, as needed. The influences that contribute to these different development assistance themes are multiple. At the highest level of official strategy, foreign aid is seen as an integral part of United States foreign policy, which itself is specifically described as a "vision of United States national interests", as defined by several USG entities under the general guidance of the Secretary of State. Congress exercises an independent and very strong role in the shaping of foreign aid and is itself directly influenced by numerous lobby groups and other

## *United States*

expressions of public opinion. The wide range of forces at work shaping foreign aid decision making, the current proliferation of developmental actors, and the lack of a single strategic vision for development co-operation, can leave the United States in a position of *ad hoc* development decision making.

The United States has an historic opportunity to consolidate strategy and organisation in the context of the MCA. If approved by Congress, this initiative will dramatically increase the size of aid, and refocus this part of the American vision for development around a results-based system that aims at poverty reduction in poor countries which have sound policies in governance and social and economic development.

### *Recommendations*

- (i) The United States should define more explicitly a system that can strategically bring together key USG development co-operation entities around a common vision and a framework of broadly co-ordinated action, and the National Security Strategy development chapter is a useful step in that direction. USAID, by virtue of its development mandate and experience, would seem well placed to assume a much stronger leadership role within this system and is encouraged to do so. The MCA presents an opportunity for such strategic and operational reform.

### *Stronger international partnerships*

Historically, the United States has been a strong advocate of reliance on international partnerships to advance the common agenda of world development co-operation. Past examples include its sponsorship of the Marshall Plan and its lead role in setting up the OECD and the DAC. More recently, USAID initiated a “Global Development Alliance” policy, which promotes the concept of strong partnerships among Americans with an interest in development co-operation. President Bush also announced a “New Compact for Development” (that includes the MCA) which will foster greater coherence among actors, both internationally and within the United States. Indeed, in the new *National Security Strategy for the United States of America*, President Bush states that “...we do not use our strength to press for unilateral advantage”. However, these statements make limited reference to current international partnerships for development, such as the Monterrey Consensus, or internationally agreed development goals.

### *Recommendations*

- (ii) The United States should continue to seek out and reinforce international partnerships to resolve the outstanding issues of development co-operation. It should take maximum advantage of the special forum offered by the DAC to enhance its (collective) learning processes. One specific example is the new MCA, where the United States could benefit from the current DAC member experience with results-based approaches to poverty reduction and good governance. Given the importance of the proposed MCA for ODA volume and development effectiveness, it will be important to ensure consistency between American selection criteria and those being used by other members of the international donor community. Also, the USAID Global Development Alliance policy emphasises the importance of partnership and common vision among American development assistance actors. This policy could be expanded so as to ensure that the principles of common vision and collaboration are extended systematically to non-American development partners, including the donor community and the beneficiary countries themselves.

### ***Improved public understanding of developmental issues***

Opinion polls indicate that the American public understands and globally supports the concept of foreign aid. The tragic events of September 11 appear to have heightened this public awareness and that of political leadership. However, Americans are often not supportive of aid due to misunderstanding of the size and scope of USG actions in development co-operation. Despite the obvious importance of public understanding of key developmental issues, USAID is prohibited by Congress from using public funds to directly influence the American public.

#### *Recommendations*

- (iii) USAID should pursue a strong alliance with other official and non-governmental actors so as to raise public awareness of the contributions that Americans are making to world development and the importance of a sustained American commitment. The longstanding prohibition against USAID directly advocating on behalf of foreign assistance should be **re-evaluated by the Congress in light of growing public and political support for aid.**

### **Policy coherence**

#### ***Promoting policy coherence for development***

Given its pre-eminent position, promoting economic growth and sustainably reducing poverty in developing countries will require the United States in particular to work alongside other donors to promote policy coherence for development. While the Bush Administration is working to strengthen co-ordination across USG agencies responsible for formulating policies in closely related areas including development, there remains scope for the United States to address more formally, systematically and coherently the effects of broader government policies on developing countries. Trade policies and agricultural policies are examples of areas where decisions taken by the United States can have major repercussions for developing countries and where further efforts within the United States to promote policy coherence can lead to positive development outcomes.

#### *Recommendations*

- (iv) The United States is encouraged to act on a range of means to promote greater policy coherence for development. These include the more systematic integration of development considerations into the broader national policy and legislative dialogue and the more systematic use of mechanisms for policy consultation across government agencies. As the primary USG advocate for development, USAID needs to play a stronger advocacy role vis-à-vis other USG agencies, in the analysis and promotion of development policy coherence. It should continue to seek strong working relationships with policy co-ordinating groups such as the National Security Council and the Policy Co-ordinating Committee on Development.

### ***Untying of aid***

The United States is broadly supportive of a liberal free trading environment and encourages participation by developing countries in international trade. Bilateral ODA implemented by USAID is by law tied to the procurement of goods and services from the United States, but this restriction may be relaxed for reasons of availability, emergency or efficiency on a case-by-case basis. A waiver to the law has applied since January 2002 that enables the United States to implement the 2001 DAC *Recommendation on Untying Official Development Assistance to the Least Developed Countries*. Food

## *United States*

aid and free-standing technical co-operation, major components of the United States' programme are, by mutual agreement of the DAC, excluded from the recommendation's coverage and so implementation is not expected to have a substantial impact on reducing the United States' overall level of tied aid.

### *Recommendation*

- (v) In accordance with the effort-sharing rationale of the *Recommendation on Untying ODA to the Least Developed Countries*, and with repeated United States appeals for better aid effectiveness, the United States is encouraged to identify and implement supplementary actions to increase the level of untied bilateral assistance.

## **Aid management and implementation**

### *Empowering the field*

USAID has had a longstanding policy of delegation of authority to the field. Most field staff interviewed during the Peer Review field visits to Uganda and Guatemala were proud of this decentralisation of resources and decision-making, yet, if prompted, also pointed to its limitations, especially in the current climate of creative reform for greater aid efficiency. Current USG programming practices such as extensive Congressional earmarking of funds, associated reporting requirements and selected limitations in using the fullest possible array of alternative approaches (*e.g.* budget support, where appropriate), may limit USAID from taking full advantage of its considerable local capacity.

Like all DAC members, the United States faces the challenge of finding a common vision and operational framework for collaboration with other partners in the field. To the extent that this common ground is not identified by the partners and that the decentralised USAID mission is not empowered to flexibly adjust over time to perceived needs at the local level, collaboration with partners in the field is less complete. As donors, both bilateral and multilaterals, now attempt to work in accordance with locally-owned frameworks, such as the Poverty Reduction Strategy Papers (PRSPs), it is important that a donor the size of the United States be able to interact fully and effectively in the field.

### *Recommendation*

- (vi) USAID is encouraged to evaluate the range of limitations on its decentralisation policy with an eye to supporting system modifications that liberate the fullest potential of the decentralisation concept. This would seem consistent with both the intent of the current MCA proposal and with the growing feedback on aid effectiveness at the DAC. With regard to monitoring and evaluation, experience in the field suggests the importance of joint partner efforts, so as to provide a mutually-reinforcing system of peer oversight and support to collective learning, while reducing the need for redundant feedback systems. USAID field missions should be encouraged to participate and even initiate such collaborative innovations.

### *The challenge of USG co-ordination in the field*

One of the basic principles of development co-operation partnership is the identification of a common vision around which the partners can rally and collaborate. The identification of such a vision in the field is increasingly challenging for the American system for aid. There has been a growing towards

dispersion of ODA responsibility among USG departments and agencies and while USAID is now responsible for only one-half of overall American ODA (down from 64% in the 1998 Peer Review), ODA responsibility of other agencies such as State, Defence, Health and Human Services or Peace Corps, is growing. While efforts are being made to avoid redundancy of responsibility among USG agencies, there is a long-term risk of inefficient implementation due to poor co-ordination.

*Recommendation*

- (vii) The United States is encouraged to re-examine its practice of directly funding development co-operation outside the USAID framework, or to ensure that appropriate co-ordination arrangements are in place at the level of headquarters for each agency prior to beginning field operations. USAID should undertake its own review of this issue, so as to raise the level of awareness of other key development agencies. USG co-ordination in the field could potentially be an issue that is taken up within the National Security Council or the Development Policy Co-ordination Committee.

*More effective and developmentally-efficient allocation of aid*

The announcement of the intention to increase the volume of annual American foreign assistance by as much as 50% is a major event for world development co-operation and is a stimulus to other donors to review their own contributions. Nevertheless, improvements can be suggested now to increase the efficiency of the current USG development aid. Of particular interest is the longstanding practice of the Congress and the Administration to make widespread use of “**earmarks**” to direct funding into pre-determined areas. These earmarks, taken cumulatively, can lead to inefficiencies in finding locally appropriate development solutions, in the less-than-efficient use of staff time and in limiting follow through on long-term actions. These inefficiencies, taken in the aggregate, have impacts on both the cost and effectiveness of American assistance. Also, they ultimately can represent an impediment to American co-ordination with other partners.

Other potential inefficiencies have been noted in programmes with special political visibility. First, the United States is by far the largest **food aid** donor in the DAC. Food aid is a good example of how the United States creatively works to locate domestically popular ways to augment its aid to the developing countries. It is, however, a complex and labour intensive form of development assistance, which could be simplified procedurally, and even replaced by simple funding, as available. Second, the allocation of ODA can become disproportionate in politically popular sectors (*e.g.* child survival or family planning), but less so in areas of avowed American strategic interest (*e.g.* democracy or economic growth).

*Recommendations*

- (viii) The United States and Congress should systematically review the strategic and management costs and other consequences of the earmarking system, particularly in the context of the current debate over the MCA. In addition, the United States should investigate and pursue efforts to improve the delivery of its developmental food aid by working to lower transaction costs. Finally, the United States is encouraged to explore options for improved matching of its core development resources (*i.e.* ODA) with development priorities.

*Enhancing management credibility*

**Results-based management** is seen as synonymous with the improved effectiveness of aid and has long been an issue with the Congress whenever it has stressed the need to ensure “value for money”. Consistent with the Government Performance Results Act of 1993, USAID now maintains, at the level of every operational unit, a multiyear strategic plan, an annual performance plan and an annual follow-up performance report. The agency has registered several accomplishments in this area since the last Peer Review, yet the methodological difficulties inherent in such an ambitious reform package have proven to be considerable and USAID has still to convince some influential sceptics. While USAID has a comprehensive system of activity monitoring in place, there may be scope to re-emphasise the value of evaluations to generate evidence of the achievements of its aid.

The USG, particularly USAID, often has been criticised for lacking internal management credibility. In response, the USAID Administrator quickly placed, in 2001, the reform of USAID “business systems” high on his list of priorities. Areas of **internal USAID management** currently under reform are human resource management, procurement, financial management, information technology, strategic budgeting and performance measurement and reporting. At the level of **human resource management**, USAID has suffered from sustained reductions in its career staff over the last decade and has lost extensive developmental depth. It is currently faced with the distinct possibility of extensive retirement within the senior levels of its staff in the next few years.

*Recommendation*

- (ix) Given USAID’s need to improve management credibility with those who oversee it, the results orientation of the MCA and the current window of opportunity for USAID to reassert leadership in development co-operation, USAID should more aggressively adopt the use of results-based systems within the Agency. Aid effectiveness is an important topic for all donors, as well, and USAID could potentially form a strong alliance within the DAC to move forward with internationally acceptable results-based approaches for development co-operation in the future.
- (x) USAID is now taking important steps to reform its human resource management system. As USAID undertakes these reforms, it should seek out skills that most explicitly support its future strategic directions, while preserving its knowledge base and expanding its analytical capacity to provide leadership in development co-operation to other USG actors.

## CHAPTER 1

### STRATEGIC FOUNDATIONS AND NEW ORIENTATIONS

#### **The foundations of United States development co-operation**

The United States has had a rich history of involvement in the evolution of world development co-operation over the last 50 years. Examples of American interest in shaping a world-wide system of development co-operation include its sponsorship of the Marshall Plan, its lead role in setting up the OECD and the DAC, and the creation of USAID and the Foreign Assistance Act (FAA) of 1961, one of the first major donor systems for developing world aid. A major new innovation of international consequence is now on the horizon, the MCA, and will be discussed extensively in this review. A brief history of United States aid efforts is contained in Annex I of this report, but several key influences on American foreign aid merit mention here. These include:

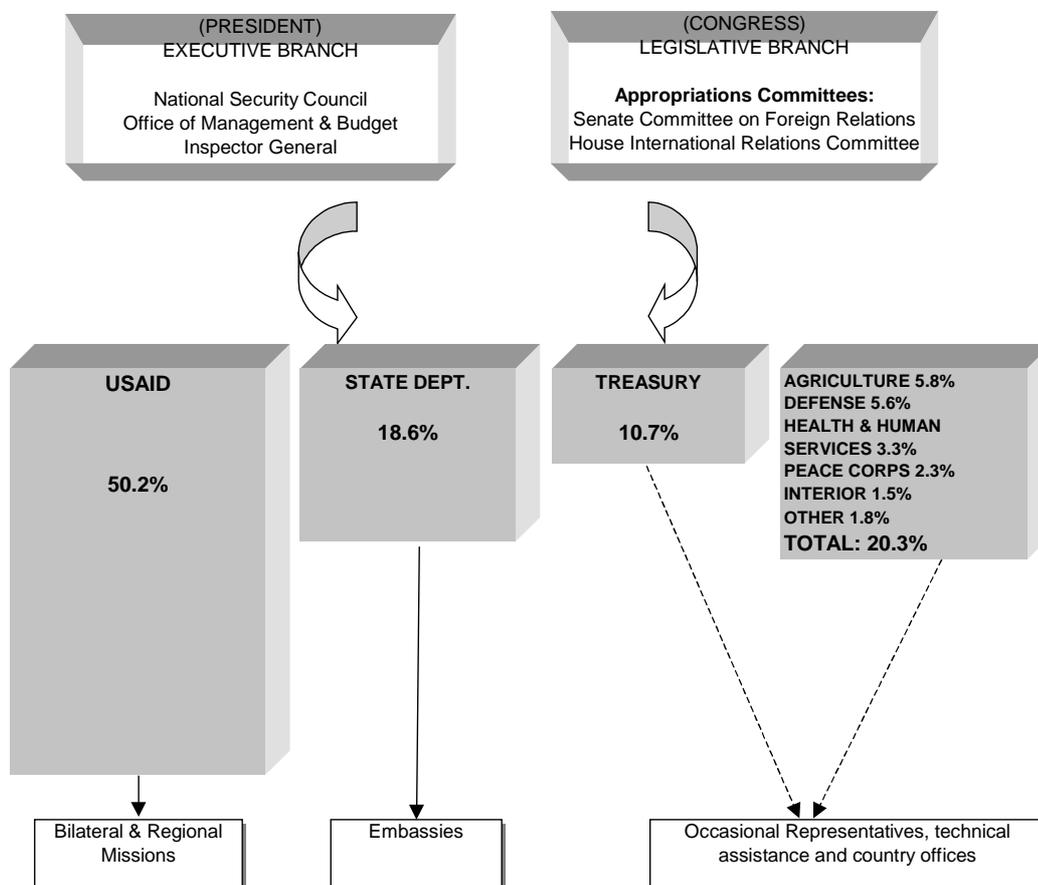
- The transparent and organised political rationale for aid based on national interest.
- The difficulties of rethinking a comprehensive development co-operation vision that is binding for all United States institutions of foreign development.
- An historical trend of declining ODA volume, which appears to have been reversed since 2001.
- The longstanding practice of delegation of authority to the field for development implementation.

#### ***In search of a development co-operation “system”***

The various entities that deliver United States development assistance do not see themselves as part of a single, integrated system. The various agencies that provide foreign assistance operate under the general foreign policy guidance of the Secretary of State, but have sometimes surprisingly weak linkages to each other and relatively modest systematic opportunity to co-ordinate their respective parts of USG aid. Explanations for this decentralised system offered in the context of the Peer Review included the wide variety of motivations affecting USG foreign policy, the large funding involved, traditional American organisational instincts against over-centralisation, and the low political priority often accorded to foreign aid. Key entities in this system are identified in Chart 1 and are more fully discussed in Chapter 5. USAID is the principal USG agency with an official mandate for (bilateral) development co-operation. Other important government institutions include the Departments of State (especially for the United Nations system) and Treasury (especially the development banks), Agriculture, Defence, Health and Human Services, Interior and the Peace Corps. Altogether, over 50 separate government units carry out aid-related activities overseas. Non-governmental groups exert considerable influence within this group, including a wide range of non-governmental organisations (NGOs), several private foundations, think-tanks and, of course, members and committees of Congress itself.

Chart 1. United States co-operation system

Per cent share of total ODA



Source : OECD and USAID.

**Strategic orientation**

Consistent with the lack of identification of foreign assistance as a clearly co-ordinated, government wide theme, the United States does not have a unified strategic approach to aid. Instead, it uses a more pragmatic approach to the management of strategy that can be situated at two separate levels.

- At the highest level of strategy, development assistance is seen as an integral part of American foreign policy. At this level, the Department of State develops a *United States Strategic Plan for International Affairs* that is seen as a “comprehensive and systematic vision of United States national interests”. The United States focus on development co-operation is hidden within a long list of foreign policy interests, but the current version of the Plan (1999) does mention the importance of development co-operation in 7 out of the total of 16 strategic goals that compose the overall foreign policy strategy. They are: economic development (see Box 1); global growth and stability; democracy and human rights; humanitarian assistance; global environment; global population and global health.

- Within this overarching statement of United States strategy, the Department of State (2000) and USAID (2000) have produced, for each of their organisations, a *Strategic Plan*. Within USAID, this overall strategic vision for development co-operation is more specifically translated into global, regional or country level strategies, wherever bilateral aid funding is to be programmed. More specific information on strategy at the field operations level is noted in Chapter 6. It is important to note that the Treasury Department *Strategic Business Plan* (and those of State and USAID) does not contain a specific approach to co-ordination of its multilateral operations with those on the bilateral side of the USG. For purposes of the DAC Review, it is useful to note that United States strategy, although compatible with the concept, does not use poverty reduction as an explicit rationale for its aid.

#### Box 1. Department of State Strategic Goal for Economic Development

“Promote broad-based growth in developing and transitional economies to raise standards of living, reduce poverty and lessen disparities of wealth within and among countries.” Page 21, *United States Strategic Plan for International Affairs*, 1999.

Against this overall strategic backdrop for United States foreign policy, USAID adjusted its formal *Strategic Plan* statement in the last year following changes in Administration priorities, particularly in the aftermath of 11 September 2001. The current *Plan* lays down three agency “pillars”, that represent its technical strategic objectives, and a fourth which describes its evolving approach to carrying out its business: (i) Economic Growth, Agriculture and Trade; (ii) Global Health; (iii) Democracy, Conflict and Humanitarian Assistance; (iv) Global Development Alliance (GDA). To ensure clarity of leadership of each theme, USAID maintains three “pillar” bureaus to track each of the first three technical strategic themes, and a small secretariat in the Administrator’s Office for the fourth, process-oriented theme. These are the current strategic themes that drive the funding and the organisation of USAID, and are key points of reference for all Americans working with foreign aid programmes throughout the world.

The Global Development Alliance is the fourth strategic objective introduced by current USAID leadership. In introducing the concept to the United States Congress in 2001, the Global Development Alliance was described as “a fundamental reorientation in how USAID sees itself in the context of international development assistance, in how it relates to its traditional partners and in how it seeks out and develops alliance with new partners”. The Global Development Alliance is built on the premise that today’s global challenges are complex and require partnerships with other American actors, including those from other federal, state and municipal governments, private corporations, NGOs, foundations and academic institutions. The operational objective pursued by the Global Development Alliance is to galvanise funding and collaboration among American proponents of development assistance to create a larger pool of resources and to allocate them more strategically. Specific sector alliances now underway relate to water for the poor, forest certification, coffee, education, a Global Genebank Trust, information technology, small enterprise development and youth. Annex II contains the agency’s description of how this new concept is being put into practice.

### Policy and organisational reform since 1998

#### *Remembering the 1998 Peer Review*

Annex III lists the important concerns raised in the 1998 Peer Review. Key items included: the shifting strategic agenda of Congress; an insufficient national consensus in support of foreign

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assistance; a need for improved co-ordination with other partners; a diminished USAID work force; difficulties in results measurement; a need for better bilateral-multilateral co-ordination; a need for greater USG internal policy coherence and co-ordination; an inadequate ODA level in relation to the size of the United States economy. Each of the 1998 concerns is addressed, in turn, in the context of this Peer Review. Some issues, particularly those relating to Congress, the basic structure of the United States Administration or the maintenance of development policy coherence, have proven to be resistant to change over the years. However, some reform in the other 1998 issue areas has been initiated, primarily since 2000. Leading issues of USAID attention in the last four years have included poor performers, mobilisation of private investment, aid effectiveness, performance-based assistance, food security and trade capacity development.

### *Policy change*

In addition to the USG strategic plans mentioned above, President Bush made his personal political statement on United States development policy in 2002. He announced a “**New Compact for Development**”, which many have labelled the first major Presidential address concerning foreign assistance since the 1960s. The Presidential statement specifies that combating poverty is a moral imperative and a United States foreign policy priority under the current Administration. Under this initiative, it was announced that the United States would increase its ODA volume by USD 5 billion. These additional funds will go to the MCA, the broad contours of which are noted in Box 2.

#### **Box 2. Millennium Challenge Account**

President Bush launched the concept of an MCA before the Inter-American Development Bank on 14 March 2002. He announced that combating world poverty was a priority of American foreign policy. To address this challenge, he proposed increased accountability for rich and poor nations alike, linking greater contributions by developed nations to greater responsibility by developing nations. The funding for this new initiative is projected to grow in size over the United States Fiscal Years (FY) 2004-06<sup>2</sup> to a total of USD 5 billion by FY 2006. If enacted by the United States Congress, this account can be expected to increase ODA by some 50% over the current level of USD 10 billion. As a point of comparison, this increase would make the MCA, were it a country, the fifth largest contributor of ODA in the world. The shape and direction of the MCA will probably not be clear until later this year, and it is currently being reviewed by a committee which brings together all key United States developmental actors. Nevertheless, some important development concepts are already known to be under review:

- Funds will be used to combat poverty and may be used to advance the Millennium Development Goals. Sector issues of interest include HIV/AIDS, basic education, trade and investment and agriculture.
- Funds will focus on a limited number of poor countries. (This could mean a very large portfolio size for those countries selected in the early period.)
- Criteria for country selection will include the need to demonstrate a strong commitment toward good governance, attention to the health and education of the people and sound economic policies that foster enterprise and entrepreneurship. It should be stressed that the eligibility criteria used in country selection are currently open to debate within the USG and Congress.
- To determine developing country eligibility, clear indicators of performance will be established.
- Monitoring of performance-based results will be a backbone of the programme’s results-oriented philosophy.

The United States sees the MCA as an initiative to redefine development assistance in ways that ensure the sustainable impact of funds utilised. Such impact is accomplished by only providing assistance to countries with demonstrated commitment to good governance and social investment and the promotion of human rights, economic freedom and private enterprise. An additional aspect of the New Compact for Development of interest to the Peer Review is its objective of fostering coherence among actors, both internationally and within the American system of government. The announcement of the MCA has ushered in a potentially new era in United States development co-operation. The high-level political attention that the MCA is receiving and the apparent consensus to move it forward imply that major new directions could be on the horizon. Finally, an important new feature of Administration expectations for United States development co-operation was announced recently (September 2002) in the context of its new *National Security Strategy*. Box 3 provides some development highlights of the strategy. Although it is too early to speculate, because of their high political priority, the new security considerations will undoubtedly influence the ground rules and organisation of overall United States development co-operation.

### Box 3. The 2002 National Security Strategy – Integrating development

The *National Security Strategy of the United States of America* was made public by the Bush Administration on 20 September 2002. It states the United States commitment to protecting basic human rights and to guaranteeing political and economic freedom. Rejecting the use of strength to press for unilateral advantage, the strategy stresses the importance of the United States reaching out to other nations to form coalitions of the willing around its international objectives. However, limited reference is made to current international partnerships for development, such as the Monterrey Consensus, or internationally agreed development goals (*i.e.* the “Millennium Development Goals”).

Development co-operation is an integral part of the strategy. The strategy states that poverty, weak institutions, and corruption can make weak states more vulnerable to terrorist networks and drug cartels. The United States will deliver greater development assistance through the MCA to support poor nations who govern justly, invest in their people and encourage economic freedom.

The National Security Strategy references to development co-operation include:

- Proposal to double the size of the world's poorest economies within a decade. This appears to be a new United States-sponsored target which may be compatible with the Millennium Development Goal to halve, by 2015, the proportion of people living on less than one dollar a day.
- Use of the MCA to increase core United States development assistance by 50%, as announced in March 2002.
- Insistence on measurable results wherever development co-operation is engaged, so as to make international aid more effective and accountable.
- Support for reform of the World Bank and other international financial institutions to make their funding more effective in combating poverty.
- Support for preferring grants over loans in aid to poor countries, including through the World Bank's International Development Association (IDA).
- Substantive assistance in opening poor societies to trade and investment. Sectoral emphasis on the health, education and agricultural sectors.

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2. The United States Fiscal Year runs from October 1 to September 30.

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There are inevitable tensions between short-term national interest concerns and long-term considerations underlying economic development. This is also true in United States foreign assistance. One example of the potential for such tensions is the well-funded Economic Support Fund (ESF) account, which is required by United States law to be used for development purposes to the “maximum extent feasible”. Generally large and short-term, ESF allocations are based on a specific United States national interest determination that the use of such funds will lead to economic or political stability in a recipient country (*e.g.* economic relief and recovery in Afghanistan or implementation of the Camp David accords). Nevertheless, this large and politically visible funding carries the risks that its use on national interest grounds may not match well with recipient country development needs.

In recent years, DAC consensus has increasingly moved in favour of the principles of country ownership and more demand-driven and (therefore) sustainable aid programming. This has led some donors to more openly recognise the tensions between national interest considerations and development and has resulted in development co-operation policies that attempt to “lower the flag”. In the United States, the language in the Foreign Assistance Act of 1961 states that the fostering of stable democracies and prosperous economies in the developing world is implicitly in the United States national interest. The USG would appear, therefore, to have some legislative latitude to integrate long-term development considerations with those of the national interest, and indeed this seems to be the approach in the recent National Security Strategy.

Perhaps the greatest comparative advantage of the United States today in the area of development co-operation is its ability to influence world opinion and action. Given its political and economic leadership role in the world, the impact of a wide range of United States policy decisions on development efforts is significant, even when related primarily to purely domestic issues. The United States continues to provide leadership in many areas of international policy and collective action. Some recent United States policy decisions, however, have generated controversy and concern, both within the United States and among its OECD partners and the wider development community. These include decisions to withdraw funds from the United Nations Fund for Population Activities (UNFPA), to pass new legislation on farm subsidies, and to no longer participate in the establishment of an International Criminal Court. These decisions all involve complex issues of policy coherence, a topic addressed more fully in Chapter 4.

### ***Organisational and management reform***

The ability of USG agencies, particularly USAID, to effectively manage the large budgets allocated to development co-operation programmes has long been an issue within the United States system, particularly viewed from the Congress. In response to these frequent organisational and management criticisms, USAID has periodically undertaken system overhauls, the most recent of which was a massive programme of “re-engineering” of the agency, extensively discussed in the 1995 and 1998 Peer Reviews, and in Chapter 5 of the present review. Despite these efforts at renewal, many in Congress still hold the belief that USAID operations remain in urgent need of reform, including the agency’s financial management, personnel and procurement systems.

As with his predecessor, the current United States President has launched a government-wide strategy for improving the management and performance of the federal government. Consistent with the President’s broader attempt at management reform, the new Administrator of USAID has publicly admitted that the agency’s “business systems” are not working and have left the agency in a “crisis of confidence”. The first year of the new Administration led to a substantive agency **reorganisation**. This notably included the strengthening of policy and budget authorities within the central planning bureau, the creation of three new “pillar” bureaus, a clarification of the role of the regional bureaus,

and the creation of a small office to address the fourth strategic objective, the Global Development Alliance. Special attention is now being focussed on the reform of the agency's **management systems** ("business system modernisation"), for which a plan is currently under development. That plan will address system reform strategies for the areas of procurement, personnel, financial management, administrative services and information management (see Chapter 5).

### **The central issues of political oversight and public awareness**

#### *Legislative legitimacy*

The American "checks and balances" system of government, in contrast to some other DAC member systems, makes room for a separate and very forceful legislative influence in the initiating and carrying out of United States policies, including those of aid. Congress uses the system to impose its opinions, especially through the annual budget process, on programmes to be implemented by the Executive branch. This Congressional guidance, sometimes at a remarkable level of detail and influenced by a plethora of lobby groups and other forms of public opinion, is frequently used in the area of development co-operation. This has led to extensive earmarking of funds, guidance and other directives for specific purposes and issues which, when taken cumulatively, represent a major (separate) influence on United States foreign assistance abroad.

The Foreign Assistance Act, although periodically amended, is the only legislation to have governed the evolution of United States development co-operation (see Box 4). Despite major changes in the political rationale for aid, not the least of which was the end of the cold war, efforts to rewrite the Foreign Assistance Act over the ensuing 40 years have never achieved consensus. This reflects, in part, the political difficulty of obtaining a majority in the House and Senate on a sensitive political issue like foreign aid. Instead (see Chapter 2), Congressional diversity finds its outlet in a variety of different instructions and budget line items at the input level, the end result of which is to deprive the United States of a more effective approach to its aid. At the level of USAID, these constraints to its field operations prevent the United States from taking advantage of its significant and highly capable field presence.

#### **Box 4. The Foreign Assistance Act of 1961**

The 1961 Foreign Assistance Act reorganised United States foreign assistance programmes of the time. For the first time since World War II, it separated military and non-military aid, and, just two months later, led to the creation of USAID. The legislation was based on three premises expressed by then President John F. Kennedy: (1) Foreign aid programmes were largely unsatisfactory and ill suited for the needs of the United States and the developing countries. (2) The economic collapse of developing countries "would be disastrous to our national security, harmful to our comparative prosperity and offensive to our conscience". (3) The 1960s presented an historic opportunity for industrialised nations to move less-developed nations into self-sustained economic growth.

The Foreign Assistance Act, which has been amended numerous times, was initially a relatively concise document. It projected both a Development Loan Fund (which initially made major contributions to infrastructure development in the 1960s and 1970s before being abolished) and a Development Grant Fund (essentially today's "Development Assistance" account) to focus on human resources. It also included a guaranty programme [now the Overseas Private Investment Corporation (OPIC)] to protect American business overseas and a "supporting assistance" programme (now the ESF Programme). The greatest achievement of the Foreign Assistance Act was that it simultaneously addressed the goals of setting up long-term development planning mechanisms, while it resolved the complex organisational problems of the previous foreign assistance programmes.

An examination of United States development assistance policies (as is true to some extent for all donor countries) must take into account its domestic political agenda. As was noted previously, the specific concept of the “national interest” has been persistently part of foreign policy strategy and legislation since the earliest days of foreign aid, and is considered by seasoned politicians to be the litmus test against which the acceptability of new policy is judged. Future new directions in United States development co-operation (such as the MCA) will need to integrate these perceptions of national interest, while mounting new programmes which incorporate the many development lessons that have been learned to date by the community of donors and development partners to reinforce aid effectiveness. Debate and absorption of these lessons at the level of Congressional leaders has not always been as strong and active as warranted.

***Poorly informed public awareness of development co-operation***

Development co-operation has suffered from a longstanding perception by many Americans that development aid is a form of unsustainable “welfare”. Further, many believe that official aid is inefficiently managed by the USG. As such, aid has been a topic of public opinion polls over the years. Perhaps the best known of these polls was that done in 1995 by the University of Maryland Program on Internal Policy Attitudes. The poll demonstrated that a strong majority of Americans felt the USG was spending too much on foreign aid. Their average estimate of the amount spent on aid was 18% of the federal budget (when in reality that number was less than 1%). Despite their apparent disapproval of aid levels, an overwhelming majority (80%) embraced the principle that the United States help people overseas who are in genuine need, and a total of 63% of respondents agreed that “the world economy is so interconnected today that, in the long run, helping third world countries to develop is in the economic interest of the United States.” In another recent (July 2002) University of Maryland poll of American support for defence spending on terrorism, those surveyed favoured a much higher proportion of new spending for foreign aid in this effort.

Historically, public support for aid peaked in 1956 at 71% of those polled, and has remained relatively stable in the 50%-60% range since. Strong Congressional opposition to aid in the 1990s caused those numbers to decline, although events such as the current “War on Terrorism”, when combined with recent messages by the President and the United States Congress in favour of increased aid, may now be having a more positive impact on public opinion. No nation-wide poll has been taken since the 1995 effort noted above, but USAID has indicated that planning is now underway for one in the near future.

The strong influence of public opinion on United States development programmes means that communication with the American public is necessarily a priority task for United States development co-operation agencies and partners. Most Americans, in fact, consider it their right to be better informed on the use of their tax dollars. However, USAID is specifically restricted in communicating on its actions and achievements by a Congressional decision which prohibits it from using public funds to market its own actions.<sup>3</sup> Nevertheless, USAID has managed to fund a small number of American NGOs to undertake public awareness programmes in the United States. In FY 2002, USAID

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3. Section 540 of the Foreign Assistance Appropriations Act, entitled “Prohibition on Publicity or Propaganda” notes: “No part of any appropriation contained in this Act shall be used for publicity or propaganda purposes within the United States...”. This prohibition has been maintained since the earliest years of USAID. Ultimately, Congress was persuaded to allow USAID to fund development education activities by selected NGOs, but it agreed to do so only under a limited dollar ceiling, which it establishes alone.

provided some USD 750 000 to four non-governmental organisations<sup>4</sup> in the area of development education, a rather modest sum given the billions of dollars of ODA handled every year by the USG. It would seem appropriate and necessary for USAID to forge an alliance with other like-minded official entities (*e.g.* State, Peace Corps, Treasury, Agriculture and Health and Human Services) and unofficial institutions that work in development (*e.g.* NGOs, foundations and universities) to better address the question of public development education and awareness. For example, one of the three formally established goals of the Peace Corps is to educate Americans about countries abroad. It actively pursues this goal, including a recent “World-wide Schools” programme, which links up American schools with those in areas where Peace Corps volunteers are located overseas. It would seem plausible to forge a more dynamic alliance among these different public and private development actors so as to promote developmental awareness and the vital job that is being played internationally by Americans and their government.

### Future considerations

As the political acceptability of foreign aid grows, it will be important for the United States to clearly define a system that can more strategically bring together key USG development entities around a **common vision** and broadly co-ordinated actions. This is particularly appropriate for the efficiency of bilateral and multilateral aspects of its aid, which should logically project a unified USG development vision and learn the same lessons from the field. USAID, by virtue of its development mandate and experience, would seem well placed to assume a stronger leadership role within this system and merits presence at the Cabinet level.

The development policies embodied in the New Compact for Development, and others, represent promising new areas of United States development co-operation. Experience demonstrates, however, that the hardest part is putting policy into practice. USAID is encouraged to take maximum advantage of the special forum offered by the DAC to enhance its **collective learning** process based on experience in these areas. This is especially true for the new MCA, where the United States could avail itself of DAC member experience in attempting results-based approaches to poverty reduction and good governance.

The USAID Global Development Alliance policy appears well placed to accentuate the importance of partnership and common vision among United States development assistance actors. A critical next step will be to ensure that this common sense of vision and collaboration is extended to **America’s partners** including those of the donor community and the beneficiary countries themselves.

USAID should pursue a strong alliance with other official and unofficial actors in an effort to raise **public awareness** on the contributions that Americans are making to world development and the importance of a sustained American commitment. Also, the longstanding prohibition against USAID directly informing the public of its programmes merits re-evaluation by the United States Congress.

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4. Action Against Hunger – USA (public and middle school teachers on agriculture), American Federation of Teachers Educational Foundation (social studies for high school teachers and students), Concern Worldwide – US (high school students on international issues), The Mountain Institute (middle school teachers, students and public on bio-diversity).



## CHAPTER 2

### AID VOLUME, CHANNELS AND ALLOCATIONS

#### Overall external assistance of the United States

The clearest notional reference on overall United States external assistance is the summary of “International Affairs” funding that is debated each year by the four Congressional Appropriations Subcommittees<sup>5</sup> which determine the size and shape of international funding. This funding comprises essentially all non-military international accounts of the USG and includes, among others, a wide range of line items that covers development assistance. It is known as the Function 150 Account, the simplest development highlights of which have been noted in Table 1. The entire Function 150 Account represents some 1% of the federal budget, while that of the Department of Defense, as a point of comparison, is almost twenty times as large.

#### *The shape of ODA within overall external assistance*

As is the case with many DAC member countries, the concept of ODA is not actively used in American budget planning and management. As a subset of the Function 150 Account noted above, ODA is found primarily in the line items managed by **USAID** (*e.g.* Development Assistance, Economic Support Funds, Title II or III food aid, International Disaster Assistance), by the **State Department** (Migration and Refugees, International Narcotics Control, contributions to international organisations) and the **Treasury Department** (IDA and regional development funds/banks). Of the total USD 22.8 billion in the FY 2001 Function 150 Account, less than one-half qualifies as ODA.

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5. The four subcommittees, on both the House and Senate sides of Congress, are: 1) Foreign Operations, Export Financing, and Related Programs; 2) Departments of Commerce, Justice, State, the Judiciary and Related Agencies; 3) Agriculture, Rural Development, Food and Drug Administration and Related Agencies; and 4) Departments of Labour, Health and Human Services, Education and Related Agencies.

Table 1. International Affairs Summary

USD million

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request
<b>FOREIGN OPERATIONS</b>	<b>14,982</b>	<b>15,353</b>	<b>16,137</b>
Of which (illustrative development highlights only)			
Export-Import Bank (net)	906	767	601
Trade and Development Agency	50	50	45
Child Survival & Health Programs Fund	1,051	1,434	-
Development Assistance	1,274	1,178	2,740
International Disaster Assistance	299	236	236
Transition Initiatives (OTI)	50	50	55
USAID Credit Programs	7	8	8
USAID Operating Expenses (OE)	543	561	586
USAID Capital Investment Fund	-	-	95
USAID Inspector General (IG)	28	33	34
Economic Support Fund (ESF)	2,315	2,224	2,290
Support for Eastern European Democracy (SEED)	674	621	495
Assistance for the Independent States (FSA/NIS)	808	784	755
Peace Corps	267	278	320
Inter-American Foundation	12	13	14
African Development Foundation	16	17	17
<b>COMMERCE, JUSTICE, STATE</b>	<b>7,003</b>	<b>7,795</b>	<b>8,090</b>
<b>AGRICULTURE</b>	<b>835</b>	<b>850</b>	<b>1,185</b>
<b>LABOR HEALTH &amp; HUMAN SERVICES</b>	<b>15</b>	<b>15</b>	<b>16</b>
<b>TOTAL</b>	<b>22,835</b>	<b>24,013</b>	<b>25,428</b>

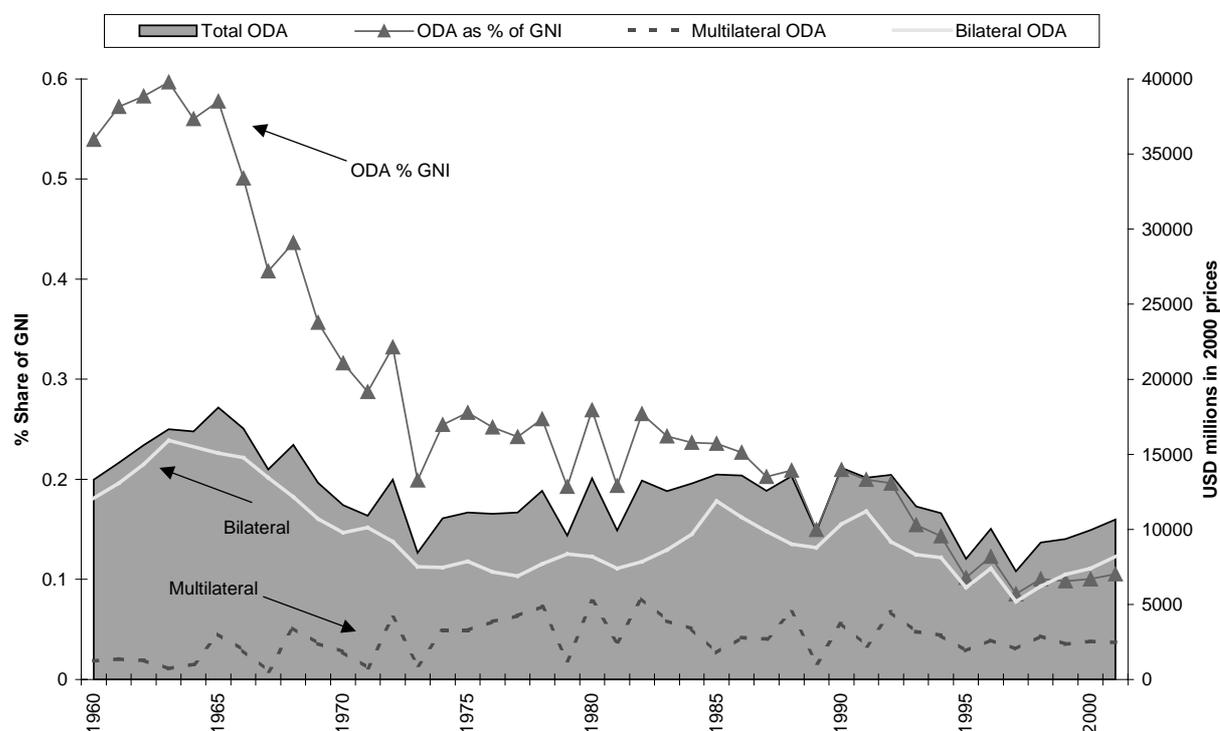
Source: Department of State.

*Today's ODA level*

The United States is now the largest donor among DAC members in volume terms, but is last in terms of percentage of the size of its economy. The total volume of net disbursements of United States ODA in calendar year 2001<sup>6</sup> is USD 10.9 billion, representing some 0.11% of the nation's GNI. This is substantially below the DAC average country effort of 0.40%. ODA as a percentage of the economy declined slowly since 1965, levelled off in the late 1990s and now appears to be growing (see Figure 1). A major, determining feature of future ODA will be the MCA. The United States has never accepted the United Nations' target of 0.7% and continues to actively question its relevance and utility. The United States prefers to underscore the importance of aid effectiveness, not aid volume.

6. This report uses calendar year 2000 ODA statistics except for selected aggregate numbers, for which 2001 data are now available.

Figure 1. United States ODA 1960-2001



Source: OECD.

**Official channels:** Since 1998 there has been a trend towards greater dispersion of ODA responsibility among official development agencies of the USG. Table 2 shows the change of official delivery channels of ODA by agency that has been registered since the 1998 Peer Review. It shows a reduction of delivery responsibility over that period for USAID, whose share has declined from 64.3% to 50.2% since the 1998 review, in favour of other agencies of government. For whatever the reason, if the USG and Congress prefer this more dispersed approach to development co-operation, experience elsewhere would suggest that such an approach should be accompanied by a deliberate and transparent process of co-ordination, both in Washington and in the field. This management issue will be reviewed more fully in Chapters 5 and 6.

Table 2. Delivery channels of United States development assistance

Per cent of total ODA gross disbursements

Agency	1998 Peer Review	2002 Peer Review
USAID	64.3	50.2
State	12.9	18.6
Treasury	12.6	10.7
Agriculture	2.3	5.8
Defense	3.5	5.6
Other	4.4	8.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Source: USAID and OECD.

## *United States*

**Additional resource flows:** The United States has historically given considerable priority to the role NGOs in development. Grants by NGOs<sup>7</sup> continued to grow during the late 1990s, led by accelerated transfers by United States-resident organizations, corporations, foundations and academic institutions. It is estimated that the United States accounts for 50-60% of total DAC private transfers, reflecting a strong American tradition of private initiative to help others in need. They provide substantial amounts of privately donated aid (estimated at USD 4 billion in 2002).<sup>8</sup> Several new, large private development **foundations** have become prominent in the last decade, among the best known of which is plausibly the Bill and Melinda Gates Foundation, which was responsible for over USD 4.8 billion of private grant aid since its inception in 2000. The overall size and composition of these non-official channels of American aid are not clearly tracked, and probably should be, given the importance they are now taking in world-wide development assistance. The total amount of aid managed by non-official American sources alone is estimated to far exceed the total ODA furnished by the United States. Finally, it should be noted that **private, non-concessional flows** to the developing world (direct investments, bilateral and multilateral portfolio investments and private export credits) totalled some USD 28 billion, almost two-and-a-half times the size of its ODA to the same countries. The United States believes it is important to note that United States foreign direct investments also have brought to developing countries crucial resources including technology, management techniques, good environmental and health practices, and knowledge and access to foreign markets.

### **Aid characteristics**

#### *Bilateral aid*

United States bilateral ODA of USD 8.4 billion was 77% of its total ODA in 2001 (see Annex IV). Bilateral aid was slightly larger, in constant terms, than that registered in the 1998 Peer Review.

#### *Multilateral aid*

United States multilateral ODA level of USD 2.5 billion was 23.6% of its total gross ODA disbursements in 2001, less than the DAC average of 30%. The proportion of its ODA going to the multilaterals has declined somewhat since the 1998 Peer Review (29.4%).

#### *Multilateral aid channels*

United States multilateral ODA is largely disconnected, both strategically and operationally, from bilateral channels (see Chapter 5). Bilateral assistance is heavily structured around USAID and selected partners. Multilateral assistance, on the other hand, transits largely through the Department of State (especially for the United States system) and the Treasury Department (IDA and regional

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7. In American aid circles, the term “NGO” is frequently used for a local, aid beneficiary country non-governmental organisation, but can also apply to American NGOs who are not registered with the USG. Private voluntary organisations (PVOs) are a government classification for American NGOs registered with the USG.

8. It should be noted that NGOs are a favoured intermediary for USG official funds, as well. For example, an estimated USD 2.7 billion of ODA is channelled through them by USAID. Of these funds, 37% went to PVOs, 9% to educational institutions, 2% to United States co-operative development organisations and 52% to all other non-profit organisations, including international and local NGOs and United States NGOs that are not registered as PVOs.

development funds/banks). It should be noted, however, that some agencies, such as State Department and USAID, have responsibilities in both the bilateral and multilateral arenas.

Table 3 shows the relative proportions of assistance that are contributed to multilateral agencies by the United States. These contributions are relatively evenly dispersed among the multilateral actors, even though the USG does not have a co-ordinated strategy for development co-operation that sharply defines its multilateral priorities. Not surprisingly, over one third of ODA to the United Nations agencies is given to the World Food Programme (WFP), essentially in the form of food aid commodities.

Recent statistics show the United States to be the largest donor for IDA (23.7% of the total in 2002), the largest holder of World Bank shares (16.87%), the largest contributor to the WFP (62%) and the sixth largest voluntary contributor to UNFPA (8.5% of total in 2001), but this latter support has now been withdrawn.

**Table 3. Allocation of ODA to multilateral agencies**

Per cent of total ODA

Agency	1998 Peer Review	2002 Peer Review
<b>Gross multilateral ODA</b>	<b>29.4</b>	<b>23.6</b>
<b>- United Nations Agencies, of which:</b>	<b>11.9</b>	<b>11.4</b>
a) WFP	(3.0)	(4.2)
b) UNHCR	(2.7)	(2.2)
c) UNICEF	(1.0)	(1.2)
d) UNDP	(1.0)	(0.7)
e) Other	(4.2)	(3.1)
<b>- World Bank Group</b>	<b>10.8</b>	<b>7.1</b>
<b>- Regional Development Banks</b>	<b>3.6</b>	<b>2.5</b>
<b>- Other Multilateral</b>	<b>3.1</b>	<b>2.6</b>

Source: OECD.

## Aid allocations

### *Brief description of the overall United States budget allocation process*

The USG budget process for development assistance involves the Executive branch [Office of Management & Budget (OMB) and the President], the Congress and the recipient agencies, such as USAID. Overall, definition of an annual budget is a one and one half-year process. The International Affairs budget (Function 150 Account) includes USAID and every other agency that supports a foreign assistance programme. Each agency submits a budget request separately, although these are combined into one international affairs budget that is passed every year. The International Affairs budget process is highly political and Congress is often unable to reach a consensus. If Congress is unable to pass the budget by the beginning of the new Fiscal Year (October 1), it usually passes a "continuing resolution" that permits spending at the level of the previous year until the budget is approved. Box 5 and Annex V contain more specific description of the complexity of the United States budget allocation process and the extent to which it can be affected by personal or collective influences.

**Box 5. Congress and earmarking**

The United States has a federal system based on the separate powers of the Executive, Legislative and Judicial branches. This frequently puts the President and his Administration into a position of negotiation with Congress in order to win approval for budgets and legislation, especially on less popular issues. For the international departments of the Administration, it is often difficult to make the case that their programmes tangibly and directly benefit the average American.

The programmes in the international affairs budget that tend to be well funded are those related to specific issues with strong constituencies. It is common practice for Congress to “earmark” funds or negotiate special directives for specific projects that (1) are supported by a few politically influential persons or groups, or (2) embody strongly-felt political themes and require immediate follow-through on the part of the Administration. Examples of the first group are the USD 186 million of “unrequested and unnecessary earmarks” identified during debate on the FY 2002 Foreign Operations Appropriations Bill.<sup>9</sup> Examples of the second group include HIV/AIDS or Education for Africa. In FY 2001, USAID reported that it was able to identify 270 separate provisions and earmarks in the developmental legislation.

Of all of the different accounts administered by USAID, the only security assistance programme is ESF, totalling some USD 2.3 billion, or 9%, of the total 150 Account. This account was established in recognition of the fact that under special economic, political or security conditions the national interests of the United States may require the provision of such assistance to support economic and political stability. In such cases, the President is authorised to furnish assistance to promote economic or political stability. By statute, the Secretary of State in co-operation with the Administrator of USAID is responsible for “policy decisions and justifications for economic support programs including determinations of whether there will be an economic support program for a country and the amount of the program for each country”. ESF represents a major additional volume of foreign aid and is a very visible part of the world-wide United States effort (the USAID managed part equates to 29% of the overall USAID budget).

***The central issue of earmarks***

Viewed from the developmental perspective of USAID, there are two types of budget earmarks, legislative and directive.<sup>10</sup> Most earmarks have a congressional origin, but some may originate within the Administration itself, such as Presidential initiatives. The Peer Review believes that the cumulative impact of earmarks and other directives on development co-operation leads to three kinds of inefficiencies:

9. In the Senate version of the FY 2002 Foreign Appropriations Bill, Senator McCain identified “Peanuts, orangutans, gorillas, neotropical raptors, tropical fish and exotic plants...” among the USD 186 million of inappropriate earmarks. He noted at the time “...it is unclear why any individual making a list of critical international security, economic and humanitarian concerns worth addressing...” would target these items.
10. Often referred to as “hard” and “soft” earmarks by USAID staff.

1. **Inefficient in finding locally appropriate solutions:** Earmarks, while providing specific guidance on how to spend funds, necessarily limit developmental specialists in Washington and in the field from exercising their best judgement to influence the allocation of scarce aid funds. This strategic limitation runs counter to USG (particularly USAID) principles of decentralised decision-making and narrows the options of those United States specialists presumably best equipped and experienced to make decisions of strategy and operations. It also runs contrary to the commonly accepted principles of host country ownership and local partner collaboration.
2. **Less than efficient use of staff time:** The need to artificially organise and report around a variety of prescriptions emanating from political decision-makers in Washington means that operational staff in headquarters and the field must devote substantial resources to adjusting programmes appropriately, including design, implementation, monitoring and reporting.
3. **Less than efficient funding process:** Programmes that enjoy support, especially when earmarked, tend to squeeze out funding for those with less strong constituencies, leading to the uneven, feast-or-famine nature of Congressionally led budgets. Old priorities that have money stripped from them may never get it back. For development agencies like USAID, with a long-term perspective, this can result in management chaos as programme priorities shift, new programmes are launched with great fanfare, and existing commitments can no longer be brought to completion.

These three kinds of inefficiencies, when taken in aggregate, have clear impacts on both the cost and the effectiveness of United States foreign assistance. They ultimately also represent an impediment to United States co-ordination with other donors. Although American aid practitioners have long recognised the operational down side of earmarking and directives, a calculation of their size and cost is well beyond the capacity of the Peer Review. A special examination on the topic would need to be carried out. This would seem to be particularly important in the case of the United States, which is paradoxically one of the strongest proponents of aid efficiency within the international community.

### ***Geographic allocations of ODA***

United States ODA provision by region, as an average percentage of bilateral ODA over the time period, has been relatively stable since the 1998 Peer Review. In comparison with other DAC members in 2000, the percentage of United States ODA tends to be visibly larger in Latin America, the Middle East and North Africa (especially Egypt), visibly smaller in the Far East and Asia and, smaller to a lesser extent, in Sub-Saharan Africa.

Annex IV notes the allocations of **ODA by income group of countries**. It appears to indicate a slowly growing trend of support for the poorer countries. However, it also shows a noticeable trend toward more “unallocated” ODA. Most of the growth in this category is due to the recent major increases in global funding for issues such as HIV/AIDS and other highly publicised new initiatives. The heading also includes funding for refugees during the first 12 months of their stay in the United States and all administration costs. Including aid through multilaterals, the USG allocated an estimated 30.3% of its ODA to the least-developed countries in the 1999-2000 period. This is close to the DAC average of 30.1%.

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ODA is allocated to a large number of **countries** each year. Roughly 100-125 countries receive between USD 200 000 and USD 800 million or more per year. Between 1995 and 2000 the number of recipients grew from 112 to 125 but the share of the smallest 20 recipients fell from 0.65% to 0.14%.

Conversely, during this same time period (1995-2000), around 50% of total gross bilateral allocable ODA went to the top 10 recipient countries (see Table IV-4). These countries have clearer political significance to United States foreign policy, and usually include a few countries from the Middle East, such as Egypt, Jordan, Israel<sup>11</sup>, India and Pakistan (in 2001). Several South American countries also appear in the top ten, and are linked to special United States interests, such as the anti-drug campaign (Colombia and Peru) and the consolidation of democracy (El Salvador) in the early 1990s after the end of the civil war.

In an analysis of the **top ten recipients of ODA** for the year 2000, Egypt received by far the most aid - USD 810.2 million – or 17% of the total gross bilateral allocable ODA. Five out of the top ten recipients are lower middle-income countries – Egypt, Jordan, Colombia, Peru, and Yugoslavia Federal Republic. These five countries combined received 29% of allocable bilateral ODA disbursements. Three of the top ten recipients are low-income countries – Indonesia, India and Honduras. These three countries received 9% of allocable bilateral ODA disbursements. Lastly, two of the top ten aid recipients are least-developed countries – Ethiopia and Mozambique, and combined they received 5% of allocable bilateral ODA disbursements.

### *Sector allocations of ODA*

Annex IV (Table 5) provides insight into the sector highlights of ODA from the United States.

The use of ODA in favour of basic **infrastructure** development (transport, communications, and energy) is extremely small (close to zero in 2000-2001) compared to the DAC average of 14%. United States bilateral assistance is no longer focussed on basic infrastructure, but in withdrawing most bilateral assistance for infrastructure, it was presumed that a major part of United States support for multilateral institutions would be used in this manner. This would appear to be an example of an area where improved USG bilateral-multilateral strategic co-ordination is desirable, especially as demand for infrastructure investment continues to grow. For comparison, in 2000 some 21% of multilateral aid was for economic infrastructure, compared to 13% of bilateral aid from DAC member countries.

The United States allocates a large (35% in 1999-2000) and growing portion of its ODA to social infrastructure and services. It pays special attention to basic **education** and basic **health** sector considerations, especially child survival and family planning. Recent major increases in funding earmarked by Congress have included targeted diseases such as HIV/AIDS, malaria, and tuberculosis. In contrast, and despite strong United States interest in promoting **economic growth**, DAC statistics show ODA in the productive sectors to be fairly small. In the field, where the Peer Review found a strong interest in obtaining additional economic growth funds to be strong, the team was led to believe that the heavy political priority accorded to social services has crowded out the availability of economic growth funds.

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11. Since 1997, assistance to Israel has no longer counted as ODA.

### *Instruments of allocation*

Virtually all of United States ODA is in the form of grants. Although USAID has officially abandoned the concept of projects, it still uses project-like instruments that are called **activities**; themselves subsumed under much broader “strategic objectives”. USAID encourages the integration of its activities into co-ordinated sector-wide approaches in recipient countries, but no longer uses budget support instruments as actively as in earlier years. This type of instrument is generally called **Non-Project Assistance** or **programme assistance** in USAID terminology. According to USAID sources, the agency obligated USD 1.4 billion of programme assistance in FY 2001, somewhat less than one-half of which could be counted as ODA.<sup>12</sup> The USG cites (i) perceptions of limited effectiveness, (ii) the considerable, up-front effort needed to set up benchmarks and (iii) difficulty in accounting for funds in the developing world as reasons for its current reluctance to fund budget support activities. More specifically, Congress recently forbade the use of this kind of instrument for activities in the health sector. In recent times, large amounts of programme assistance have been provided subsequent to high-level, political decisions (*e.g.* Camp David Accords, aid to Pakistan or Afghanistan), and often with ESF monies. Although less common than was previously the case, some programme assistance is based on the purely developmental decisions of USAID, and may even be used jointly with Development Assistance funding. Examples of this kind of programme assistance were found in both Peer Review field visits to Uganda and Guatemala.<sup>13</sup>

One final important instrument of United States aid is that of **food aid**. The United States is responsible for two-thirds of all ODA food aid in the world, and provides this assistance largely through its emergency and “monetised” development food aid<sup>14</sup> programmes. The United States also provides some two-thirds of the food aid pool of the WFP. USG procedures have been developed to ensure that food aid does not disrupt domestic production or create market distortions, particularly when the commodity is sold. Food aid is a good example of how the United States creatively works to locate domestically popular ways to increase its level of assistance to the developing world. Nevertheless, food aid is a (relatively) complex and labour-intensive form of development assistance (Box 6 presents some specific issues raised by NGOs in Guatemala related to implementing United States food aid programmes). As the United States looks for future approaches to more efficient aid programmes and as grant funding grows in size, it is suggested that USAID, the Department of Agriculture and other international donors pay special attention to the costs and benefits of this form of development assistance.

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12. Programme assistance in FY 2001 was provided to 9 countries: Israel, Egypt, Jordan, Montenegro, Serbia, Mozambique, Malawi, Ghana and Uganda.

13. See the Uganda field report in Annex VII, for a listing of different donor perspectives on budget support found in that country.

14. Monetised food aid is managed by selected United States NGOs, who sell the food in the recipient country at market prices, then place the funds in a local currency fund which is set up to finance development activities, generally in food security sectors such as agriculture.

**Box 6. Experiences with implementing United States food aid programmes**

NGOs implementing United States food aid programmes in Guatemala believe there are opportunities to improve the efficiency and cost effectiveness of this form of development assistance. Specific issues raised by these NGOs include:

- Processes and requirements across the various food aid schemes offered by USAID and the Department of Agriculture are not standardised, which creates complications for NGOs involved in implementing several food aid schemes. For example, NGOs' own internal costs associated with delivering food aid may or may not be reimbursed, depending on the food aid scheme. In addition, the cycle and timing of events differ across the different schemes.
- The locus of decision-making responsibility for different schemes is not always clear and may be found within the local Embassy, the local USAID mission or USAID or the Department of Agriculture headquarters in Washington.
- The requirement that 75% of food aid be carried on United States-flagged ships can double transportation costs.
- Food aid schemes can be administratively burdensome and appear unnecessarily complex. Reporting requirements can be cumbersome. Procurement procedures could be simplified and relaxed, particularly the requirement to purchase medicines, fertilisers and seeds from the United States. The ability to obtain a waiver not to buy American vehicles appears to depend too much on individual personalities at the USAID mission (none have been granted in Guatemala in recent years).
- A large amount of guidance is prepared on implementing each food aid scheme. But documents are re-issued several times a year, without an indication of which provisions have been changed.

Bilaterally, the United States has provided food aid through three different channels:

- *Public Law 480 “Food for Peace” programme:* (i) Title I, “Trade and Development Assistance”, is administered by the Department of Agriculture’s Foreign Agricultural Service and involves United States government financing sales of United States agricultural products to developing countries on concessional terms. It is designed to develop foreign markets for United States agricultural products. Local currencies received may be used to carry out activities in the recipient country, such as developing new markets for United States agricultural commodities, paying United States obligations and supporting agricultural development or research. (ii) Title II, “Emergency and Private Assistance”, is the most widely used and donates United States commodities to support USAID humanitarian relief, food security, health and nutrition programmes on which USAID consults with or implements through PVOs. The co-operating sponsor (PVO or multilateral agency) must prepare a Bellmon assessment to establish that adequate storage facilities are available in the partner country and that the distribution of food aid will not interfere with local production. (iii) Title III, “Food for Development”, involves government-to-government grants to least-developed countries where donated United States commodities are sold in the recipient country (“monetised”) and the revenue generated used to support development programmes.

- *Section 416(b) programme:* Approved by the semi-autonomous Commodity Credit Corporation, section 416(b) is explicitly linked to the overseas donation of surplus United States domestic agricultural products. It is overseen by the Food Assistance Policy Council that gathers proposals from PVOs and others and approves deliveries. The United States has stated its intention to end the 416(b) programme.
- *“Food for Progress” programme:* This programme provides United States commodities to countries having made commitments to expand free enterprise in their agricultural economies and strengthen democracies. The programme has not been funded since 1999.

### **Future considerations**

To assist in shaping and leading a coalition of USG agencies around the concept of development co-operation, it could be helpful for USAID to maintain a more comprehensive public record of **ODA planning** and use within the overall government.

The USG and Congress are strongly encouraged to more systematically review the strategic and management costs and other consequences of the complex and inefficient **earmarking system**, perhaps in the context of the current debate over the MCA. It is suggested that Congress commission a special study on the topic from the General Accounting Office (GAO) or another similar, senior and respected institution of management. Examples of alternative approaches exist in other DAC Member countries and could usefully be examined by Congress.

USAID and the USG should review the rules and policies that govern the use of **budget support**. It is in the best interests of United States agencies that implement development co-operation programmes abroad to be able to employ whatever budget instrument is strategically and operationally most appropriate.

The United States should investigate and pursue efforts to improve the delivery of its developmental **food aid** by working to eliminate rigidities and lower transaction costs.

Heavy concentration of ODA funds in the health area, and relatively scarce funding in areas such as economic growth and democracy, suggest that the USG should pay greater attention to **matching its funding allocations with its development priorities**.



## CHAPTER 3

### MAIN SECTORS AND CROSS-CUTTING ISSUES

#### Poverty reduction and broad-based sustainable economic growth

In their 1996 report *Shaping the 21st Century: The Contribution of Development Co-operation*, DAC members set out their collective views on goals and strategies for development co-operation. At the centre of the effort was a set of proposals to support poverty reduction in developing countries by assisting them to achieve core goals for economic and social development and environmental sustainability and to promote the qualitative factors needed for more stable, safe, participatory and just societies they considered essential to the attainment of those measurable goals. Under the impetus of the *Shaping the 21st Century* strategy, DAC members are working with greater resolve to reduce poverty and to work to ensure the centrality of sustainable poverty reduction in development co-operation. The *Guidelines on Poverty Reduction*, endorsed by the DAC in 2001, list six complementary and mutually reinforcing policy domains that should be included in an effective strategy for sustainable poverty reduction (with no order of priority implied): i) pro-poor economic growth; ii) empowerment, rights and pro-poor governance; iii) basic social services; iv) reducing vulnerability and managing shocks; v) enhancing gender equality; and vi) environmental sustainability.

Across DAC members, views differ on how donors can best contribute to sustainably reducing poverty. Some DAC members place a high premium on basic social services (basic education, basic health, population programmes and access to safe water and sanitation). Other DAC members strive to promote pro-poor economic growth, focusing on improving the "enabling environment" through good governance programmes and other activities that foster investment and trade. In the case of the United States, its long-standing goal in both developing and transition countries has been to promote broad-based economic growth, with a particular emphasis on ensuring financial sustainability.

As part of their efforts to implement the development partnerships strategy, DAC members have been reflecting upon the place of poverty reduction in their approach to development co-operation. In the United States, this has mainly involved USAID examining the relation between poverty reduction and broad-based sustainable economic growth. For example, a paper prepared within USAID argues that, while there is no reference to poverty in USAID goals and strategic objectives, the broad-based growth approach of the agency does represent a form of poverty reduction strategy. As a result, USAID's mission statement could easily refer to "sustainable development including poverty reduction" without requiring significant changes in USAID's strategic framework of goals and objectives.

This implicit support for reducing poverty in USAID activities was apparent during the Peer Review field visits to Guatemala and Uganda. In Uganda, the goal of USAID's integrated strategic plan is "assisting Uganda to reduce mass poverty" while the current strategic plan for Guatemala aims to promote peace through "inclusion, local empowerment and poverty reduction". Poverty reduction is an

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important theme for many other USAID country strategies. Furthermore, the new USAID country strategy for Guatemala also provides an example of the United States' approach to reducing poverty through pro-poor economic growth. USAID proposes to continue working in Guatemala to alleviate poverty through a concerted focus on strengthening the rural economy in poor and indigenous regions with economic growth potential. USAID intends to do this by investing in that portion of the agricultural sector that consumes locally and forges backward linkages with the local economy. USAID bases its approach on evidence that it is growth in the off-farm sector that most tends to lift countries out of poverty but that this is achieved, paradoxically, through investments in the agricultural sector.

The United States' reflection on the underpinnings of its development co-operation have led to poverty reduction receiving greater prominence within USAID, as demonstrated by the recent establishment of an office (within the Bureau for Economic Growth, Agriculture and Trade) to focus on poverty reduction issues and on maximising the poverty reduction impact of USAID's activities. In addition, the MCA has an explicit focus on reducing poverty in poor countries. The United States does not, however, explicitly target its ODA on poor countries or the poorest of the poor, nor does it focus on achievement of the development goals in the Millennium Declaration (MDGs). This sets the United States apart from many other DAC members and could impact on USAID's capacity to engage in joint collaboration with other donors.

### **Encouraging broad-based sustainable economic growth**

Overall, USAID spent USD 2.3 billion on economic growth activities in FY 2001, slightly less than one third of the agency's total programme funds. The approach adopted by USAID to encouraging economic growth covers private sector development, trade development, privatisation, fiscal and financial sector reform, agricultural development and micro-enterprise. Generally, USAID no longer supports either small- or large-scale infrastructure development, having found that funding by partner governments for maintenance was often not available. The United States also considers that development banks are better placed to support infrastructure activities while also ensuring that partner governments' budgets include adequate funding for related on-going costs. However, in recognition of the important contribution that physical infrastructure accessible to all population groups makes to promoting economic growth in developing countries, several other DAC members continue to support the development of infrastructure, financing these activities with both grants and loans. The potentially large amounts of money that the small number of countries selected for the MCA might receive opens an opportunity for the United States to consider funding infrastructure activities on a larger scale once again. It would however be important to ensure that such activities are not supply driven and respond to actual identified needs in developing countries. As several PRSPs and the New Partnership for Africa's Development (NEPAD) demonstrate, developing countries are aware of the contribution that infrastructure can make to promoting economic growth and reducing poverty and may consider infrastructure development a high priority.

### ***Trade capacity building***

For the United States, breaking the cycle of poverty requires developing countries to gain access to the global marketplace where far greater resources for development can be found. In addition, the United States' view is that foreign trade and investment provide more than money as they also bring ideas and innovations that can raise productivity and build the foundation for domestic industries. However, many developing countries still need the tools and training to help them participate more fully in the global trading system and to reap the benefits of trade liberalisation.

To respond to this need, the United States Trade Representative has been playing an active role related to policies on trade capacity building while USAID and nearly 30 other United States government departments, agencies and offices have been implementing trade-related capacity building activities in a total of approximately 100 developing and transition countries. The funding for these activities between FY 1999 and FY 2001 was USD 1.3 billion<sup>15</sup>, of which 70% went to developing countries. Activities covered nearly a dozen different areas but most funding was provided for human resource capacity building and labour protection (USD 256 million), trade facilitation (USD 245 million) and financial sector development (USD 234 million). USAID's funding for trade capacity building activities in both developing and transition countries in FY 2001 was USD 86 million<sup>16</sup>, 1% of the agency's programme funds. An example of USAID's support for building trade capacity in Central American countries was seen during the field visit to Guatemala (see Box 7).

**Box 7. USAID's Regional Trade and Investment Programme for Central America (PROALCA)**

PROALCA aims to increase Central American readiness to join multilateral, regional and bilateral trade agreements and to meet their commitments. The programme promotes more open trade and investment policies, which encourage rapid and sustained economic growth. The main implementing unit is the Central American Secretariat for Economic Integration (SEICA), which maintains a close relationship with the Council of Ministers of Trade of the five Central American countries. PROALCA's strength is that it is one of the few donor programmes addressing these issues at the regional level. During Phase I (1997 to 2002), PROALCA contributed to lowering tariff structures, simplifying customs procedures, expanding intra-regional trade, increasing regional economic integration and making Central American government officials more knowledgeable about the requirements of free-trade agreements. The project's technical assistance and support was key to helping establish the office of the Special Prosecutor for Intellectual Property Rights crimes in Guatemala, assisting the office of the Intellectual Property Rights Prosecutor in El Salvador and drafting updated Intellectual Property Rights legislation in all countries in line with World Trade Organisation (WTO) requirements. PROALCA also provided technical assistance and training to the ministries of labour of Central America and the Dominican Republic in the areas of labour relations and labour inspection; carried out pilot programmes to eradicate child labour, and, jointly with the Inter-American Development Bank and the Central American Secretariat for Economic Integration, established a regional system of labour information.

The United States is now giving far higher priority to trade capacity building, partly linked to new market access initiatives for developing country exports (see Chapter 4). There is also increasing attention within the United States government on inter-agency co-ordination. The recent appointment of a Deputy Trade Representative whose responsibilities include trade capacity building and inter-agency co-ordination is a demonstration of the USG's expanding commitment to promoting the link between trade and development and to addressing institutional challenges within the American system.

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15. The United States' definition of "trade capacity building" is broader than that used by many other countries and includes most private sector development, labour standards and protection and general skill enhancement.
  16. In terms of the United States' broader definition of trade capacity building, spending by USAID in this area totalled USD 422 million in 2001.

***Agricultural development***

In the view of the United States, agricultural development is extremely important for developing countries both as a motor for economic growth and for reducing hunger and malnutrition. USAID sees a convergence of elements recently emerging that could enable agricultural producers and rural industries in developing countries to increase food production and take advantage of globalisation to promote their longer-term economic growth. These elements include knowledge, skills and technology transfers based on recent advances in science and technology that can underpin new approaches to solving problems experienced in developing countries.

The United States has supported development of the agricultural sector in developing countries for many years through activities aimed at expanding production, improving market efficiency, increasing access to markets and promoting trade and investment (Box 8 provides an example of USAID's approach in Guatemala). In parallel, the United States is the largest provider of food aid, which is used to improve household nutrition, especially in children and mothers, and to enhance food security. The Department of Agriculture's Foreign Agricultural Service and USAID are key actors in agricultural development programmes. However, USAID's capacity to approach agricultural issues strategically has decreased and funding levels have declined markedly. In FY 2001, USAID's budget for agricultural activities in both developing and transition countries was USD 301 million, 4% of the agency's programme funds. Under USAID's current Administrator, agricultural development is being given greater prominence and the agency has the ambition of taking a leadership position in the provision of agricultural development assistance over the next five years.<sup>17</sup> To support this ambition, a new strategy for agricultural development is being prepared and funding and analytical capacities are being increased. An objective through this process is to bring USAID's many individual agricultural activities together in a more focussed and co-ordinated way, and to enhance the interdependence of economic growth and agricultural development.

**Box 8. Helping small farmers in Guatemala with marketing for export**

The villagers of La Estancia la Virgen in a former area of guerrilla activity in Guatemala began producing French green beans in the 1980s. Marketing beans for export was done on an individual basis. Farmers would travel over four hours a day to sell their day's harvest in an uncertain market where intermediaries had discretionary control over the price structure, reputedly manipulating price information and using biased scales.

USAID's AGIL project of technical assistance for non-traditional agricultural exports helped organise these farmers and introduced new vegetable varieties. To facilitate more direct market connections, a packing centre was built in the village using construction materials provided by the municipality, labour provided by the farmers and a small grant from AGIL for the design and supervision of the construction. Since March 2001, a buyer/exporter company has purchased beans directly from the farmers' packing centre. This guarantees a fairer purchase price, pegged to demand in the market, and has led to a significant drop in transportation and transaction costs for the farmers. The resulting threefold income gain at the household level can be seen through improvements in housing and other material evidence.

continued

17. As an example, the United States is taking a leading role in the new work by the DAC Network on Poverty Reduction related to on- and off-farm rural development as a key aspect of pro-poor economic growth.

In a town near La Estancia la Virgen, AGIL together with COKADI, a local development organisation, assisted a women's group to set up a laying hen facility. The president of this association recently convinced the farmers' wives to set up their own laying hen operation. Starting out with 500 hens, the operation quickly took off and an additional 700 hens have already been acquired.

Within a short period of time, the French green bean operation and the laying hen facility have introduced radical changes into the lives of people in the La Estancia la Virgen community. Women mention improvement in family dynamics now that the men do not have to spend 25 hours a week away from the community hawking their produce. A reliable and easily accessible supply of fresh eggs is improving nutritional intake in the local community.

### Social services

The United States' budget allocations in poor countries currently indicate strong support for basic social sectors, despite the importance USAID attaches to encouraging economic growth. In Uganda, for example, and excluding food aid and HIV/AIDS funds, the mission plans to spend nearly two-thirds of its expected budget for 2002 to 2007 pursuing the strategic objective of "improving human capacity" (*i.e.* basic health and education and population programmes) with only about one third of the budget dedicated to "expanding sustainable economic opportunities for rural sector growth". To a large extent, this breakdown reflects how available funds can be used because activities are mostly financed from comparatively more abundant but heavily earmarked resources such as Child Survival and Disease Programs Funds. This situation is found in many countries where USAID has a long-term development co-operation programme.

### Health

The United States' approach to development is based on the premise that sustained economic development is dependent on a healthy labour force and children being able to attend school. For over 40 years, the United States has therefore made a substantial contribution to saving lives, stabilising population growth and improving the health status of men, women and children in developing countries. The United States has recognised the importance of sexual and reproductive health as a central theme in its development policy for more than 30 years and is by far the largest donor in this area. The United States' efforts in the health sector continue to expand through its strong support for international initiatives, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria<sup>18</sup> and the Global Alliance for Vaccines and Immunisation (GAVI<sup>19</sup>). The United States is also redoubling its bilateral efforts to address the HIV/AIDS pandemic, through an expanded engagement by the Centres for Disease Control and Prevention (CDC) in delivering the United States' development co-operation programme and initiatives such as President Bush's announcement in June 2002 of USD 500 million of additional funds for the prevention of mother-to-child transmission of HIV.

In FY 2001, USAID spent USD 1.4 billion in both developing and transition countries on health activities, 19% of the agency's programme funds. Activities were directed at five broad objectives: i) reducing unintended and unwanted pregnancies; ii) reducing infant and child mortality and

18. As of September 2002, the United States had pledged USD 500 million out of a total of USD 2 113 million in pledges to the Global Fund. The Bill and Melinda Gates Foundation had also pledged USD 100 million.

19. As of September 2002, the United States had pledged USD 48 million for one year towards GAVI's goal of raising USD 2 billion over five years. The Bill and Melinda Gates Foundation had also pledged USD 750 million over five years.

improving infant and child health and nutrition; iii) reducing health risks associated with pregnancy and childbirth; iv) reducing HIV transmission and the impact of the HIV/AIDS pandemic (see Box 9 for an example from Uganda); and v) reducing the threat of infectious diseases. USAID pursues these objectives through efforts to improve the quality, availability and use of essential health and family planning services, including by promoting and making available the results of global research on innovative technologies and approaches. In FY 2001, USAID's largest health programmes were in Bangladesh (USD 40 million), India (USD 40 million) and Egypt (USD 34 million). Health activities are now being managed more strategically in USAID, reflecting the priority attached to this sector. Health professionals in the agency have been grouped in the specialised Global Health Bureau that can provide technical support and advice to other Washington bureaus and field missions. Health teams have been formed in each of the priority countries for the health programme. USAID is consequently preparing itself to implement effectively the additional financial resources it continues to receive for HIV/AIDS, malaria and tuberculosis programmes while maintaining substantial support for other health sectors.

#### **Box 9. Combating HIV/AIDS in Uganda**

The United States has been working on HIV/AIDS-related activities in Uganda for more than a decade, through USAID, CDC and, more recently, the National Institutes of Health. Uganda is one of the African countries where HIV/AIDS was first recognised and where its impacts have been most severe. The Ugandan government responded early to the epidemic and, after developing one of the most vigorous and comprehensive HIV prevention and AIDS mitigation efforts in sub-Saharan Africa, has achieved notable success. Over the last decade, the sero-prevalence rate at key sites has been reduced by as much as 50%. This success is nonetheless fragile. More than half of Uganda's population of 23 million is under 15 years of age. With almost 1.5 million Ugandans currently affected, a second wave of the epidemic could quickly spread among the youth.

USAID has provided direct assistance to the two largest indigenous HIV/AIDS NGOs in Uganda. Both organisations continue to be a model for the rest of Africa. The AIDS Information Center (AIC) is the first and largest organisation in Africa to provide voluntary counselling and testing. To date, it has served more than 500 000 Ugandans. USAID was the first donor to support the AIDS Information Center and currently funds more than four-fifths of its USD 2.3 million annual budget. The AIDS Support Organization (TASO), the first indigenous AIDS organisation in Africa, has provided care and support services to more than 60 000 registered individuals and their families since the late 1980s. In addition to adult clients, TASO also serves more than 1 000 orphaned and/or vulnerable children. USAID has been a lead donor to TASO and provided USD 2 million in support in FY 2001.

Among other activities supported by USAID, the HIV/AIDS Food Assistance Program is a five-year, USD 30 million project that provides food assistance to more than 60 000 individuals infected by HIV/AIDS or living in households where food security has been undermined by HIV/AIDS. This activity is implemented by faith-based groups and other NGOs, including TASO, Catholic Relief Services, World Vision and Africare.

CDC's activities initially focussed on applied research and surveillance but subsequently expanded to include programme implementation. For example, USAID and CDC are currently collaborating to support a five-year, USD 20 million project to support 16 districts to plan, implement and monitor decentralised HIV/AIDS prevention, care and support services. The project, the AIDS/HIV Integrated Model District Programme (AIM), is also helping to strengthen the capacity of NGOs and community-based organisations to plan, manage and provide essential services at national, district and sub-district levels.

Aside from USAID, the Department of Health and Human Services is another key actor in the United States' support in the health sector, particularly through the CDC and the National Institutes of Health. In general, CDC is primarily involved in infectious disease surveillance and building up laboratory capacity while USAID's emphasis is on community health programmes. USAID is working to co-ordinate and collaborate its health activities with other USG agencies involved in this sector and has signed a Memorandum of Understanding with CDC on HIV/AIDS joint programming. USAID sees other government agencies as having staff and expertise that can usefully be mobilised to complement its own activities, especially as these agencies can operate more flexibly since they are not limited by the staffing and operating budget restrictions placed on USAID. NGOs play an important role in channelling the United States' health funds to people in developing countries by delivering basic health services.

### *Education*

The United States views basic education as a foundation for development as it is linked to faster and more equitable economic growth, increased productivity, strengthened democracy and civil liberties and, in the case of girls and women, to improved family health and lower fertility. The United States is according greater prominence politically to basic education<sup>20</sup>, as demonstrated by the President's African Education Initiative, that will increase the United States' funding for basic education in Africa by a further USD 200 million over the next five years, and the United States' substantial contributions to the work of the G8 Education Task Force, that released its report at the Kananaskis G8 Summit in June 2002. The Department of State and USAID are the principal USG agencies involved in the education sector.

In the education sector, USAID's priority is to strengthen primary education with a particular emphasis on improving educational access, quality and equity. In FY 2001, USAID spent USD 283 million, 4% of the agency's programme funds, on education activities and implemented major education programmes in 25 countries. USAID believes that it has achieved some impressive results through its education activities and the Peer Review field visits to Guatemala and Uganda corroborated this, finding that USAID had played an important catalytic role in promoting policy reforms as well as helping to expand access to education, including for girls and indigenous people (see Box 10 for an example). USAID has also made an important contribution to expanding poor people's access to education through supporting programmes whereby NGOs work with local communities to set up community-based educational systems. Nevertheless, despite the importance given to education, this sector was generally not well supported in USAID during the 1990s. This trend is now being reversed and USAID is rebuilding its staffing capacities in this area and expects to commence educational programmes in six additional countries in the near future. To build on the strong connection that the United States makes between education and economic growth, USAID's Office of Human Capacity Development was recently relocated to the Bureau for Economic Growth, Agriculture and Trade.

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20. USAID defines "basic education" more broadly than the DAC, including all programme efforts aimed at improving primary **and secondary** education, literacy training for adults or out-of-school adolescents and early childhood development, **as well as training for teachers at any of these levels**. The DAC's definition of "basic education" is limited to formal and non-formal pre-school and primary education for children and basic life skills for youths and adults, including literacy and numeracy training.

**Box 10. Increasing educational access in Quiché Department, Guatemala**

The bulk of USAID education assistance in Guatemala has been at the primary school level. USAID has pilot tested various approaches to supporting public sector primary education, including curriculum and materials development, policy support, teacher training and institution strengthening. These activities have helped increase access to basic education, improve schooling outcomes for primary school children and increase the level of community commitment to education.

The gross national enrolment rate in junior high school is 31.2% in Guatemala but drops to 9.4% in the department of Quiché. In communities in this department, USAID, through its Access to Intercultural Bilingual Education (AIBE) activity implemented by the NGO World Learning, has provided an integrated approach to educational delivery. With the support of AIBE, parents of targeted communities formed committees, lobbied their respective municipalities to provide financial assistance and negotiated with the Ministry of Education to authorise the establishment of co-operative junior high schools. AIBE helped the communities recruit teachers, train them and provide instructional materials, under one condition: that the 640 junior high school students serve as bilingual teacher aides in early primary school classes (pre-kindergarten to grade 3), especially in classrooms taught by monolingual Spanish-speaking teachers. The students not only constituted additional instructors in the crowded classrooms, but brought Mayan language capability to previously Spanish-only classrooms and served as a linguistic bridge between home and school. Under AIBE's urging, the Ministry of Education authorised the addition of an experimental course to the junior high school curriculum to prepare these students as teachers' aides.

**Democracy and governance**

The United States views democracy and good governance as being essential for development because democratic governments are more likely to protect civil and human rights and, in the long run, experience the kind of stability necessary for sustained economic development and international trade. Apart from USAID, several other USG agencies deliver support for improving democracy and governance in developing countries. The State Department often plays an active role through its diplomatic missions and the United States Armed Forces can be engaged with their local counterparts to help reform and professionalise partners' armed forces. USAID mobilises universities, think-tanks, NGOs and the private sector in the United States in implementing its democracy promotion programmes. The Democratic and Republican Parties' respective political institutes also contribute to the United States' overall effort, receiving some public funding to support their activities.

Four out of five USAID field missions have made promoting democracy and good governance a strategic objective. In FY 2001, USAID's funding in this area world-wide was USD 956 million, 13% of the agency's programme funds. Activities focused on four areas: i) improving laws and legal systems; ii) strengthening political processes and conducting fair and impartial elections; iii) developing citizens groups and civil society; and iv) improving governments' ability to perform transparently and effectively. An increasing number of programmes to combat corruption are being put in place since Congress passed the Anti-corruption and Good Governance Act in 2000. USAID's capacity to implement effective governance programmes is enhanced by the support provided by the Office of Democracy and Governance in Washington. This office formulates new approaches, examines the impact and efficiency of USAID activities, assesses innovations in this domain, promotes good practices and provides training to staff in the field. USAID also encourages the pursuit

of governance objectives as integral parts of other development activities and has found that linking governance with other goals enhances achievements in both domains.

The DAC Guidelines on *Helping Prevent Violent Conflict* stress that security reform is an integral part of governance involving a range of actors from the military and the police, to judicial and penal systems, to ministries of foreign affairs, trade and commerce, to civil society organisations. It is consequently important that the various USG field agencies active in this area are well co-ordinated and implementing complementary programmes. USAID is generally restricted from engaging directly with the military, the police and prison services in its development activities. This restriction appears unhelpful and an obstacle to the United States achieving more effective results because it prevents USAID from adopting a holistic approach to governance issues and requires the agency to patch together ways of encouraging other USG agencies to integrate development approaches and objectives into their actions, so as to complement and reinforce USAID's governance activities.

### **Conflict prevention**

Preventing violent conflict in developing countries through development co-operation has become more of a priority for the United States since the end of the cold war. Since 1994, USAID has supported post-conflict reconstruction through its Office of Transition Initiatives. This engagement is wide-ranging, including support for the negotiation and implementation of peace settlements, training conflict management facilitators and equipping communities with skills to manage disputes. The United States, particularly through the Department of State and USAID, now intends to expand its involvement in conflict prevention even further. In USAID, the need to respond to conflict not only as a facet of transition but as an issue intrinsic to all development has been recognised. In pursuit of this broader objective, USAID is setting up a specialised office and has drafted a strategy paper on conflict prevention and foreign assistance. The approach being adopted is to pursue conflict prevention by attempting to manage and mitigate conflicts before they become violent using such tools as conflict analyses and risk assessments. In FY 2001, USAID spent USD 13 million on conflict prevention activities, 0.2% of the agency's programme funds.

The draft strategy prepared by USAID looks at how foreign assistance can interact with the causes of civil conflict and communal violence. As foreign assistance programmes may affect underlying conflict dynamics, the strategy seeks to provide guidance on how programmes might shift in order to address these dynamics. At a more operational level, and presuming that countries with a high risk for violent conflict can be identified, the strategy also seeks to identify where development assistance can potentially accelerate or inhibit conflict. However, to maximise the United States' contribution to conflict prevention, USAID should also look beyond foreign assistance programmes to the policies pursued by other government agencies. For example, and as the DAC Guidelines on *Helping Prevent Violent Conflict* state, since much of the activity in the effort to limit small arms is carried out by Interior or Justice Ministries, development co-operation agencies need to communicate and co-ordinate well with these ministries, at home and at regional and international levels. Most of the major wars in the past decade were predominantly fought using small arms. Although United States manufactured small arms may not have been the weapon of choice in these conflicts, support from the United States, as the world's largest producer of small arms, is important for multilateral efforts to curb illegal trade in small arms.

A further development within USAID is the requirement now placed on USAID Missions to prepare a "Conflict Vulnerability Assessment" when developing a new country strategy. These objective assessments can also be of use to people within the country concerned, as well as to other donors. USAID should consider giving wide circulation to these assessments as a means of provoking

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discussion and debate and providing common input for the formulation of other donors' country strategies. At the same time, some other DAC members also prepare similar assessments and efforts should be made to avoid duplication by preparing joint assessments wherever and to the extent possible.

### **Emergency and disaster relief**

The United States is the largest provider of emergency and disaster relief in the DAC, disbursing more than USD 1 billion annually in recent years. Along with USAID, several other United States government agencies are mobilised for the provision of emergency and disaster relief. The Department of State manages grants to international relief organisations in response to emergencies. With an annual budget of USD 670 million, the department's Bureau of Population, Refugees and Migration administers and monitors United States contributions to international agencies and NGOs to assist and protect refugees abroad. The Department of Agriculture works closely with USAID in the provision of food aid, which is often used for emergency feeding programmes in countries experiencing food shortages due to drought or civil conflict. In other countries, the local currency proceeds from the sale of surplus American food commodities may be used for disaster assistance projects. Technical assistance is also supplied in response to foreign disasters by CDC, the Environmental Protection Agency, the United States Forest Service and the United States Geological Survey. In addition, the Department of Defense's Office for Peacekeeping and Humanitarian Affairs co-ordinates the use of military assets for emergency and disaster relief operations, although the full costs of the United States Army's Humanitarian Assistance Programmes are not included in the ODA figures the United States reports to the DAC.

Within USAID, the Office of Foreign Disaster Assistance co-ordinates the United States government's response to human induced and natural disasters and emergencies, a challenging task given both the range of USG agencies involved and the difficulties inherent in responding to emergency situations. This office is also responsible for providing non-food humanitarian assistance, which is mostly channelled through NGOs or United Nations humanitarian agencies. In addition, the Office of Food for Peace is the Department of Agriculture's counterpart within USAID for the provision of food aid, both for emergency and developmental purposes. In FY 2001, USAID spent USD 1.3 billion on emergency assistance and disaster relief, 18% of the agency's programme funds.

### **Cross-cutting issues**

#### ***Gender***

Within USAID, gender is woven into the strategy of every mission and every staff member is responsible for addressing gender issues. The bulk of activity for mainstreaming gender and progress towards gender equality takes place within USAID's field missions. An Office of Women in Development, housed within the Bureau for Economic Growth, Agriculture and Trade in Washington, has a central/co-ordinating role and distils lessons learnt from USAID's experience. The office has a staff of 12 and a core budget of USD 10 million for FY 2002. In addition to supporting specific activities such as enhancing women's education and legal and property rights, the office also focuses on emerging issues where gender is a key concern including gender and information technology and trafficking in persons, for which a specific budget of USD 1 million has been allocated.

Gender analysis is required across the range of technical issues that are considered in the development of any given USAID operating unit Strategic Plan. Any issues that emerge from that analysis must be addressed in the strategy itself. Performance management systems and evaluations must include gender-sensitive indicators and sex-disaggregated data. Although it is difficult at this stage to assess the implementation of this policy across the agency, including its field missions, it seems that a large majority of operating unit's strategic plans is following this guidance. As a result, a number of significant achievements can be reported. For example, higher percentages of women better understand the system for legal redress in several countries and greater numbers of individuals report gender-related violations of human rights, for example in Ghana. In Guatemala, gender and women's issues are fully integrated into the mission's strategic objective for environment. Assistance to integrate gender into sector training activities was provided to the mission in Morocco as well as to other bureaus in Washington; and a number of analytic tools and studies have been produced, such as a primary teacher-training manual to support creative, gender-sensitive activities for students in Mayan and Spanish.

The Office of Women in Development also works with USAID's external partners and contractors to enhance their capacity to address gender concerns. For example, the office has a co-operative arrangement with the Commission on the Advancement of Women established by InterAction, a major NGO umbrella group, which enables the commission to offer technical assistance and training services in gender-sensitive programming and organisational practices to InterAction members. Between 1997 and 2001, the commission provided on-site technical assistance related to gender issues to 20 InterAction members. USAID's knowledge, expertise and experience in gender areas should also be made available to the increasing number of other United States government agencies implementing development co-operation activities.

### ***Environment***

The United States acknowledges that environmental protection is essential if investments in development are to promote long-term economic growth and food security and improve human health and well-being. As well as USAID, the Environmental Protection Agency contributes to the United States' efforts to improve environmental conditions in developing countries.

In recognition of the link between a healthy environment and sustainable development, USAID works towards promoting clean air, well-managed forest and water resources, the conservation of biological diversity and energy efficiency. In FY 2001, USAID's budget for environmental activities in both developing and transition countries was USD 591 million, 8% of the agency's programme funds. While the Office of Environment in the Bureau for Economic Growth, Agriculture and Trade has lead responsibility for environmental issues within USAID, missions and regional bureaus co-ordinate the majority of the agency's environmental programmes and activities. The approach taken by USAID to addressing environmental problems varies according to the kind of challenge and region. Activities in Africa, Asia and Latin America emphasise biological diversity and natural resource management programmes. In Africa, traditional community property rights are incorporated into USAID's community-based natural resource management activities. Additional environmental concerns in Asia and Latin America include clean water, sanitation and air pollution. In the area of environment, USAID provides technical and financial assistance and works in close partnership with a wide range of actors, including host-country governments, NGOs, other donors, the private sector and international organisations. Nevertheless, given the global and transboundary nature of some environmental problems, it is important for USAID to engage with other USG agencies involved in discussions on environmental issues at regional and international levels to ensure that potential impacts on developing countries are considered when formulating United States positions.

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The United States announced a set of "signature partnerships" related to environmental issues at the World Summit on Sustainable Development in Johannesburg in 2002. The "Water for Poor Initiative" (USD 970 million over three years) aims to expand access to clean water and sanitation, improve watershed management and increase the efficiency of water in industrial and agricultural activities. The "Clean Energy Initiative" (USD 43 million in 2003) aims to expand access to energy services, increase the efficiency of energy use and reduce preventable deaths and illnesses associated with motor vehicle and indoor air pollution. The "Initiative to Cut Hunger in Africa" (USD 90 million in 2003) will be used to spur technology sharing for small-holders, strengthen agricultural policy development, fund higher education and expand resources for transportation, marketing and communications. Finally, the "Congo Basin Forest Partnership" (USD 53 million over four years) aims to support sustainable forest management in six central African countries.

### **Future considerations**

The United States should consider describing its **strategy** for development co-operation more in line with explicit poverty reduction objectives that are used increasingly by members elsewhere in the DAC. Similarly, this Peer Review is a reminder for other DAC members that a **pro-poor growth** policy is one of the central characteristics of the Poverty Reduction guidelines. The United States offers an example of how to creatively address the growth side of the overall poverty reduction strategy.

The large number of **sector actors** in the USG system suggests the need for strong strategic and implementation co-ordination at that level so as to improve system efficiency and learning. The knowledge, expertise and experience of development issues that USAID possesses allow the agency to play a pre-eminent role in this regard. USAID can, in particular, enhance the effectiveness of its activities by engaging with other USG agencies on issues of democracy and governance, conflict prevention and gender equality.

## CHAPTER 4

## POLICY COHERENCE FOR DEVELOPMENT

**The importance of the United States promoting policy coherence for development**

When adopting the *Shaping the 21st Century* report, DAC members collectively set out their aim to assure that the entire range of relevant industrialised country policies are consistent with, and do not undermine, development objectives. The DAC Guidelines on *Poverty Reduction* emphasised that the degree of overall coherence between the policies of OECD member governments is a major factor influencing the effectiveness of development co-operation policies. As the world's largest economy, policies adopted by the United States can have a substantial impact on developing countries, both positive and negative. The United States' global leadership position also means that its decisions act as an important reference point for other donors. Given this pre-eminent position, sustainable poverty reduction in developing countries will require the United States in particular to work alongside other donors to promote policy coherence for development.

People in developing and industrialised countries alike can benefit substantially from reducing incoherence in public policies. For example, OECD and World Bank estimates indicate that tariffs and subsidies in OECD countries for agricultural and manufactured goods may cause annual losses to developing countries of more than USD 50 billion - the same order of magnitude as their total ODA receipts. If the impact of non-tariff barriers and other trade policy measures that add to transfer and transaction costs are included, the total static cost may be three times larger, and the dynamic effects even larger still. In the agriculture sector alone, OECD countries spend over USD 300 billion a year implementing these policies, of which the United States has spent more than USD 90 billion annually in recent years.<sup>21</sup>

The DAC Guidelines on *Poverty Reduction* recognised that policy coherence is a major challenge because specific issues commonly involve domestic interest groups and government agencies with primary interests and responsibilities other than that of reducing global poverty. Furthermore, the degree of policy consistency tends to diminish as the domestic political sensitivity of issues rises. These are important considerations in the United States' context for three reasons. First, the separation of powers between the Executive branch and the legislature results in Congress playing an independent role in formulating policies that may already represent a carefully negotiated position by a range of government agencies. Also, as Members of the House of Representatives are elected for two-year terms only, this promotes a focus on issues with a direct domestic political impact. Finally, while special interest groups lobby Members of Congress to encourage them to support their particular cause, Members of Congress cannot easily gain other perspectives on development issues due to the restrictions placed on USAID engaging in "publicity or propaganda" activities (see Chapter 1).

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21. Figures quoted are OECD estimates of total support to agriculture. In 2001, the Total Support Estimate for the United States was USD 95 billion, or 0.9% of its GDP (below the OECD average of 1.3%). For comparison, the Total Support Estimate for European Union Member States was USD 106 billion, 1.4% of their combined GDP, and for Japan was USD 59 billion, 1.4% of its GDP. See *Agricultural Policies in OECD Countries: Monitoring and Evaluation (2002)*.

## **Examples of policy coherence issues for the United States**

There are many areas where policies of the industrialised countries can complement or frustrate development efforts. For practical purposes, and taking into account the likelihood of achieving changes, the *DAC Guidelines on Poverty Reduction* highlighted six priority areas: international trade and foreign direct investment; international finance; food and agriculture; natural resources and environmental sustainability; social issues, such as health and labour standards; and governance and conflict. This section discusses three areas where broader USG policies can impact on development prospects in developing countries. The three examples - trade policies, agricultural policies and tied aid - were also identified in the 1998 Peer Review but remain current issues of concern. This shows the importance of ensuring that effective mechanisms are in place to allow the development impacts of other policies to be taken into account in decision-making processes.

### ***Trade policies***

The United States is broadly supportive of a free liberal trading environment and encourages participation by developing countries in international trade. The President's new National Security Strategy emphasises the importance of promoting the connection between trade and development. It argues that trade policies can help developing countries strengthen property rights, competition, the rule of law, investment, the spread of knowledge, open societies, the efficient allocation of resources and regional integration – all leading to growth, opportunity and confidence in developing countries.

The United States played an important role at the Doha WTO Summit in 2001, helping to launch the new round of global trade negotiations by agreeing to allow future discussions aimed at clarifying and improving disciplines on Subsidies and Countervailing Measures, particularly antidumping measures. Congress has now, after considerable time and debate, followed through and provided the Bush Administration with the Trade Promotion Authority that greatly facilitates the United States' capacity to engage meaningfully in trade negotiations. One area of concern for Congress was granting the Executive branch with authority to engage in open-ended negotiations on antidumping and other Subsidies and Countervailing Measures. Once Trade Promotion Authority had been granted in July 2002, the Executive branch moved forward quickly with releasing a proposal on agricultural trade reform to be considered as part of negotiations at the WTO. The proposal aims to eliminate export subsidies and reduce world-wide tariffs and trade-distorting domestic support over a five-year period, which would yield benefits for farmers in both developed and developing countries.

In aggregate, the United States is a significant and expanding market for developing country exports. The total value of imports from developing countries was USD 588 billion in 2000. The United States imported 20% of world imports of manufactured goods from developing countries in 2000, up from 11% in 1980, and 32% of world imports of clothing, up from 16% in 1980.

United States import tariffs are, on average, relatively low although some high tariff rates and tariff escalation are apparent on some labour-intensive products which are both sensitive for United States domestic industries and important for developing countries. These include textiles, clothing, footwear and some processed agricultural products. These goods bring in a disproportionate share of United States tariff revenue - in 2001, USD 8.7 billion of the USD 18.6 billion of tariffs collected came from clothes and footwear alone, which made up only 6.7% of United States imports (see also Box 11). The average tariff rate on imports from developing countries was 7.3% in 2001, as compared to the United States average tariff of 1.6%. As well as increasing costs for poorer households in the United States, these policies can undermine efforts by USAID and others to promote export-led economic growth in developing countries, especially in those countries with a comparative advantage in producing these goods.

### Box 11. Tariffs on imports from Mongolia and Norway

In 2001, the United States collected USD 23 million in tariffs on imports from Mongolia and USD 24 million on imports from Norway.

Norway ranked first out of the 173 countries included in the United Nations Development Programme's (UNDP's) Human Development Index for 2002. Norwegian exports to the United States consisted mostly of smoked salmon, jet engine parts and crude oil and had a total value of USD 5.18 billion. This implies an average tariff on imports from Norway of 0.5%.

Mongolia ranked 113<sup>th</sup> in the UNDP's Human Development Index. Mongolian exports to the United States consisted mostly of clothing, especially sweaters and suits, and had a total value of USD 0.14 billion. This implies an average tariff on imports from Mongolia of 16.1%.

The United States has taken a number of measures to open up its market to products from developing countries, including through its Generalised System of Preferences (GSP) Scheme first introduced in 1974, the Caribbean Basin Initiative (1984) [replaced by the Caribbean Basin Trade Partnership Act (CBTPA) in 2000] and the African Growth and Opportunity Act (AGOA) passed in 2000 (see Box 12). Each of these measures is limited to selected goods from certain developing countries.

### Box 12. Schemes for increasing market access for exports from developing countries

**General System of Preferences:** The United States' GSP grants duty-free access to exports from many developing countries for around 2 900 tariff lines, as well as, since 1997, an additional 1 783 products from most least-developed countries. Between 1996 and 2001, duty-free imports from least-developed countries under the GSP rose from USD 49 million to USD 2.9 billion, although petroleum products accounted for the quasi-totality of the growth. Some important products for developing countries are not covered by the GSP, including textiles, apparel, footwear and agricultural products in excess of quota limitations. The GSP has been renewed seven times in the last ten years. Most recently, the scheme was inactive between 30 September 2001 and 6 August 2002.

**Caribbean Basin Initiative:** The CBI introduced a two-pronged approach of market access coupled with trade capacity building that was subsequently used as the basis for AGOA. Although apparel is excluded, there are high quotas for apparel formed from raw materials sourced in the United States. The CBI has been successful in promoting transformation of the export capabilities of eligible countries that have changed policies and institutional arrangements. Exports of coffee and bananas to the United States from five Central American countries fell from more than 60% of total exports in 1983 to less than 10% in 2001, when they were far surpassed by apparel, computer chips and non-traditional agricultural products.

**Africa Growth and Opportunity Act:** Under AGOA, substantial extra benefits have become available to eligible countries in sub-Saharan Africa, as compared to those granted under the GSP. These include: i) an expanded time horizon - AGOA preferences remain valid until at least 2008; ii) fewer limitations - AGOA preferences are not rescinded when exports reach a pre-determined limit; and iii) expanded product eligibility - AGOA offers duty-free access for an extra 1 800 tariff lines, including textiles, apparel, watches, footwear, handbags, luggage and leather. Strict rules of origin apply for textiles, to avoid trans-shipments from non-eligible countries, and a number of "import sensitive" products for the United States remain excluded, including such non-apparel textile products as blankets, bed linen and tablecloths. In 2001, the first full year of implementation of AGOA, the total value of imports from the 35 currently eligible countries declined by 10% to USD 17.1 billion, mostly due to falling oil prices. Of this amount, USD 8.2 billion worth of goods entered duty free, principally petroleum products (USD 6.8 billion), apparel (USD 356 million) and transportation equipment (USD 289 million).

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The United States' efforts to open its market to exports from developing countries is done on a highly managed basis and would not appear the most effective approach to encouraging the establishment of a free and liberal global trading environment. The United States can unilaterally withdraw or change benefits in response to domestic concerns or because ancillary conditions beyond the control of individual firms or people are not met, including the protection of labour rights, protection of intellectual property rights and provision of market access to United States exporters. The resulting potential lack of continuity undermines efforts to take full advantage of opportunities created. For example, the on-and-off nature of the GSP adds to the uncertainties that investors considering moving into export-oriented activities in GSP-beneficiary countries need to consider and affects decisions by businesses in the United States sourcing inputs from GSP-beneficiary countries. Individual countries' eligibility for receiving benefits under AGOA is determined annually, based on an assessment by the United States of whether countries have established, or are making continual progress towards establishing, a range of economic, governance, human rights and other conditions. The United States also retains some discretion to adjust the products covered by AGOA and can amend the already complicated rules-of-origin provisions on textiles. Businesses may well judge that these additional risks make potential investments or expansions in activities in developing countries unwise.

A particular issue regarding AGOA is consistency within the USG's assessment of countries. For example, while the United States Trade Representative recognises that "Kenya has failed to establish an effective system to combat serious and pervasive corruption and bribery", Kenya nevertheless remains eligible for AGOA benefits. At the same time, the Treasury Department has been supporting moves within international financial institutions to reduce co-operation with Kenya, due to concerns about large-scale corruption. The view of the Department of State, as expressed in its *Human Rights Report* for 2001, is that "the [Kenyan] government's human rights record remained poor, and it continued to commit numerous, serious abuses." Furthermore, given the size of the MCA and the transparent criteria that will be used to select eligible countries, it will be important that the United States ensures that selected countries are also considered by the international community to be performing well and to have good track records in governance and human rights. Otherwise, there is a risk that this initiative may destabilise programmes by other members of the donor community and be counterproductive for the partner countries concerned.

An additional obstacle for exporters to the United States is satisfying a range of non-tariff barriers, in particular rules of origin, health and safety standards and, for exporters of agricultural products, a series of sanitary and phytosanitary measures. Although the need to impose these limitations can be justified on scientific grounds, proving compliance can be a challenge for developing countries with limited human and institutional capacity in these areas. Among the range of trade capacity building activities sponsored by USG agencies, the United States offers technical assistance to help improve inspection procedures and process controls in developing countries. USAID has also recently launched a new Trade for African Development and Enterprise initiative that will provide technical assistance in trade capacity building.

Like other countries, developing countries are also subject to United States anti-dumping laws. While these laws are designed to protect United States producers from subsidised imports, they can also be used to protect domestic industries. Developing country exports of numerous products, but most notably cut flowers<sup>22</sup>, have been the subject of repeated anti-dumping cases. Other examples where anti-dumping duties have been imposed include frozen concentrated orange juice from Brazil, fresh

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22. To increase rural household incomes in Uganda, USAID is supporting the production of selected high-value non-traditional agricultural exports, including cut flowers. Ugandan cut flowers are currently mainly supplying markets in Europe. Further expansion to other markets, such as the United States, would contribute to higher economic growth in Uganda and a more rapid reduction in poverty.

salmon and preserved mushrooms from Chile and honey from Argentina. The United States also recently imposed temporary safeguard duties on steel, although most developing country exports were exempted from the duties. Even so, Brazil is considered one of the fastest growing and most competitive steel producers in the world today and Brazil's duty-free quota corresponds to its current export levels, not the expected future levels on which investment decisions have been based. Brazil has lodged a complaint at the WTO over United States steel duties (and over the imposition of an excise tax by Florida on processed orange juice).

### *Agricultural policies*

Agriculture provides livelihoods for the majority of people in most developing countries but this sector is vulnerable because it can be affected by policies adopted in industrialised countries. Efforts by OECD countries to protect domestic markets via agricultural support measures tend to stimulate domestic production and depress world prices. This in turn can limit developing countries' export opportunities for their primary and processed agricultural products. In addition, subsidised OECD farm products are dumped on export markets, including in developing countries, creating unfair competition for farm products in those countries' domestic markets.

The United States guarantees prices for some domestic agricultural producers mainly through various subsidies (rather than by using trade policies). As a very large market, the United States' agricultural subsidies can have a significant effect on world market prices. For example, in 2000, the OECD estimated that the elimination of United States domestic support to oilseed production would have a cross-commodity effect and lead to a short-term increase of 6% to 7% in world soyabean prices. While the impact of lower world prices differs for producers and consumers, large price fluctuations not linked to market forces are potentially dramatic as they can result in efficient low-cost producers abandoning an industry. In poor countries, these producers may have few alternative sources of income and may have no access to social safety nets, pushing them deeper into poverty.

In 1996, the United States Congress passed the Federal Agriculture Improvement and Reform (FAIR) Act that aimed, during a period of rising world prices, to shift the United States away from agricultural subsidies linked to production levels and towards direct income support. However, many commodity prices subsequently declined and Congress approved price-support programmes that boosted farm income by roughly USD 7.5 billion in each of the past four years. The 2002 Farm Security and Rural Investment Act (the new "Farm Bill") reverses the intention to move towards liberalisation and is likely to dilute further the influence of market forces on farmers' production decisions. The planned increase in support, of around USD 7.4 billion per year, continues on a longer-term and more predictable basis the recent trend of "emergency" appropriations to underpin farm incomes.<sup>23</sup> The new law includes "circuit breakers" to ensure that the United States remains within its relatively low domestic support ceiling of USD 19.1 billion agreed with the WTO<sup>24</sup>. While the expected overall level

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23. The majority of farm payments in the United States go to a small share of farmers. An analysis conducted by the Environmental Working Group, a not-for-profit environmental research organisation, found that 20 congressional districts will receive 52% of USD 4.6 billion in emergency "Freedom to Farm" payments under the new Farm Bill. Within those 20 districts, 10% of farms will receive more than half the subsidies. (For further information, see: <http://www.ewg.org/reports/farmfairness/default.html>)
24. For comparison, the "amber box" WTO agreed production-related subsidy ceiling for the European Union is USD 64.6 billion and for Japan is USD 27.0 billion. The United States' proposal for reforms in agricultural trade would lead to these limits being reduced to USD 12 billion for the European Union, USD 10 billion for the United States and USD 4 billion for Japan.

of support (relative to revenues in the agricultural sector) is difficult to predict, it may not greatly exceed that observed in recent years provided that additional emergency appropriations are not enacted.<sup>25</sup> Nonetheless, the new Farm Bill will almost certainly result in increased agricultural production and lower world prices for some commodities, with the cost burden largely imposed on United States taxpayers and market adjustments borne by producers in competing countries in world markets.

The perceived protectionist stance displayed by Congress with the new Farm Bill is a source of concern to developing countries and was identified as an important issue by representatives of the Guatemalan and Ugandan governments met during the field visits to prepare for this review. Many of the products supported are important commodities for developing countries, including sugar, dairy products and cotton, and so there may continue to be significant repercussions for developing countries (see, for example, Box 13 relating to cotton). In addition, price support mechanisms are now being extended to some other commodities, including dry peas, lentils and chickpeas, which are widely grown in developing countries and important export items for them, but for which the United States is currently only a minor producer and exporter. Guaranteed prices are an incentive for some United States farmers to expand production of these commodities and even a small increase in United States production could have a trade distorting effect and cause a fall in global prices.

**Box 13. Subsidies to United States cotton farmers**

World cotton prices have been declining since the mid-1990s. In response, Congress has granted emergency assistance to the United States' 25 000 cotton farmers since 1997. The value of this assistance in 2001 was approximately USD 2.1 billion (of the total annual subsidies to cotton farmers in industrialised countries of around USD 4.8 billion). Cotton producers in the United States have received other benefits as well, including quotas on imports and export subsidies, that have shielded production decisions from relative price movements. As a result of these practices, the total cotton harvest area in the United States increased by around 10% between 1998 and 2001 and United States cotton exports, which make up around one third of world trade, are expected to reach their highest level since 1926.

Cotton prices have now hit a 30-year low of 42 cents a pound. Downward pressures on world prices have impacted on some of the poorest countries, especially in West and Central Africa which are among the lowest-cost producers in the world. The total world cotton harvest area has declined and cotton exports by non-United States producers are at their lowest levels in nearly 20 years. Governments in West and Central African countries are currently providing subsidies of the order of USD 50 million to USD 60 million a year to cushion their cotton farmers from the fall in prices. The loss of export receipts caused by the fall in world prices over the past two years is over 3% of GDP in Mali and Benin and around 1% to 2% of GDP in Burkina Faso and Chad. For comparison, the value of annual HIPC-initiative debt service relief to these countries is in the range of 0.81% to 1.58% of GDP.

According to estimates by the World Bank, the removal of cotton subsidies in the United States would produce a fall in United States production and lead to a rise in the international price in the short run by as much as 12 cents a pound. This would increase revenues from cotton by about USD 250 million in West and Central Africa countries, substantially more than the USD 137 million in ODA the United States provided to these countries in 2000.

25. The Senate voted on 10 September 2002 an additional USD 6 billion in aid for United States farmers affected by the current drought. This package still needs to be passed by the House of Representatives and approved by the President.

United States agricultural policies that result in limiting access for developing country exports to the United States or have a significant influence on world prices can adversely affect USAID's export-focused rural development activities. Furthermore, USAID's capacity to pursue rural development activities adapted to the local conditions in developing countries is reduced by the agency being prohibited by law from working to promote foreign exports to the United States of some sensitive agricultural products, notably palm oil, citrus fruits and sugar. The OECD, in its *Agricultural Outlook 2002-2007*, reminds governments that the long-term prosperity and competitiveness of farm sectors is not served by insulating producers from world markets. Analysing agricultural issues from a broader and longer-term perspective may help promote sustainable agricultural industries in the United States, lower the tax burden on United States citizens and improve the effectiveness of USAID's agriculture and partner country export promotion efforts.

### ***Tied aid***

Tied aid requires goods and services for an aid activity to be purchased from United States suppliers.<sup>26</sup> This practice ensures returns to the United States' economy from the aid programme. Nearly three-quarters of United States bilateral ODA commitments were tied in 1996, the latest year for which the United States has reported these data to the DAC.

Bilateral ODA implemented by USAID is by law tied to the procurement of goods and services from the United States, but this restriction may be relaxed for reasons of availability, emergency or efficiency on a case-by-case basis. Since 1 January 2002, a waiver to this law has applied that enables the United States to implement the DAC Recommendation on Untying Official Development Assistance to the Least-Developed Countries. Food aid and free-standing technical co-operation, major components of the United States programme, are, by mutual agreement of the DAC, excluded from the recommendation's coverage and so implementation is not expected to have a substantial impact on reducing the United States' overall level of tied aid. On the other hand, United States firms now benefit from expanded access to procurement opportunities in other DAC members' aid programmes. Consequently, and as agreed in the recommendation, the United States is encouraged to undertake its best endeavours to identify and implement supplementary effort-sharing actions for providing untied ODA, so as to promote more balanced effort sharing among DAC members.

The tying of aid to United States sources reduces, in general,<sup>27</sup> the cost effectiveness of the United States' ODA by limiting competition and undermines ownership of the development process by developing countries. For example, food aid is only sourced in the United States and the requirement that 75% of food aid be carried on United States-flagged ships is estimated to add an additional 50% to 200% to delivery costs. In the case of technical assistance, the tying of aid can impact on the quality of programmes because American experts may not be the most appropriate in all circumstances, or appropriately qualified Americans may not be readily available. The requirement or preference that USAID contractors in some developing countries purchase vehicles made in the United States can result in contractors spending more on vehicles and maintenance, as well as running a higher risk of vehicles being immobilised because spare parts are not available. Relaxing the requirement or

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26. Tied aid, which includes loans, grants or associated financing packages with a concessionality level greater than zero per cent, is defined as aid which is in effect (in law or in fact) tied to the procurement of goods or services from the donor country or a restricted group of countries.
27. The tying of aid has important consequences for developing countries and one of its negative effects is that it may increase costs to the recipient by as much as 20 to 30%. See Jepma, Catrinus J. (1991); *The Tying of Aid*; OECD Development Centre, Paris.

preference to "Buy American" should improve both the efficiency and effectiveness of United States ODA. More generally, it would be revealing for an independent body, such as the GAO, to examine the cost to United States taxpayers of the tying of aid and report on its impact in terms of efficiency and effectiveness.

A mixed credit is a financing package including some ODA funds that are used to support the export of goods from a donor country to developing countries. Through the Export-Import Bank's Tied Aid Program Projects Fund, the United States has a trade policy tool for matching trade-distorting foreign tied aid offers in selected circumstances. The United States is also setting up a new two-year pilot mixed-credit scheme to finance developmentally sound capital projects involving United States exporters and businesses in creditworthy middle-income countries. In compliance with OECD guidelines, only projects in "commercially non-viable" areas will be supported (for example in environment, renewable energy, health care, education or water and sewerage). A minimum 35% grant from USAID will be combined with a loan from the Export-Import Bank. The challenge for any mixed-credit scheme is to meet development and business objectives simultaneously. This ultimately results in trade offs, with a risk of such schemes becoming supply driven. Some DAC members have stopped their mixed-credit schemes in recent years due to concerns about their effectiveness as a development tool. The new United States scheme could be important for expanding markets for some exporters and there are consequently risks that ODA resources will be diverted from highest-impact development activities. While proposals under the scheme must be generated by a USAID mission and this should help to ensure that projects are not supply driven, USAID will nonetheless also need to be strong, vigilant and actively engaged throughout the decision-making process in Washington, to ensure that development objectives are met.

### **Promoting policy coherence within the United States**

The Bush Administration is working to strengthen co-ordination across USG agencies responsible for formulating policies in closely related areas, including development. There remains scope, however, for the United States to address more formally, systematically and coherently the effects of broader government policies on developing countries. The Peer Review team has identified six areas where the United States could pursue reforms in order to promote greater policy coherence for development:

- (i) **Communicating commitment by the highest political authorities:** The current political leadership has shown a strong interest in responding to the development challenges faced by poor countries, as demonstrated by the President personally announcing several major initiatives and tours by the Secretary of State and the Secretary of the Treasury to Africa and other regions. Nevertheless, the vision behind this interest has not yet been articulated in a comprehensive mission statement or strategy that could serve as a basis for mobilising efforts across government agencies in support of this vision, although the National Security Strategy represents movement in that direction.
- (ii) **Increasing USAID's political involvement:** Within the executive branch, the National Security Council (NSC) is the principal forum for considering national security and foreign policy matters. Its role includes co-ordinating policies among various government agencies. The NSC is chaired by the President and includes several cabinet members as well as the President's National Security Advisor. The heads of other departments and agencies are invited to attend meetings when appropriate. However, consideration could be given to extending a standing invitation to the Administrator of USAID to attend NSC meetings so as to help inject into deliberations the wealth of knowledge and experience on development issues that USAID possesses. President

Bush's proposals to transform America's national security institutions, outlined in his new National Security Strategy, could also extend to designating USAID as a national security institution. USAID recently placed a Director for Development Issues at the NSC, to serve as the primary advisor to the council's Office for International Economic Affairs on all matters pertaining to international development assistance (with the exception of humanitarian and food assistance). This demonstrates the significant input that USAID is capable of providing. The contribution USAID can make was demonstrated by the substantial input the agency was able to mobilise during the preparations of the *DAC Guidelines on Poverty Reduction*, particularly in relation to policy coherence.

- (iii) **Establishing mechanisms for exchange and consultation across government agencies:** While policy coherence for development as such has not been adopted as an objective for the Bush Administration, there is an awareness of the value of promoting co-ordination among government agencies and of fostering synergies towards achieving over-arching objectives. A series of high-level Policy Co-ordination Committees (PCCs) has been established on either an *ad hoc* or standing basis on a wide range of issues. In relation to development, *ad hoc* PCCs have been set up for specific purposes, such as preparation of the MCA, and to prepare for major international summits, such as the Monterrey Conference on Financing for Development. These PCCs operate on a short-term basis and appear to function well and produce results. An open-ended Development PCC has also been created, chaired by the Department of State and with other members including USAID, the Treasury Department of the and the OMB. However, this PCC has not yet clearly established the role and contribution it can make, which is regrettable because it could be a useful forum for examining issues from a longer-term perspective and for promoting broader USG coherence in relation to critical issues for developing countries.
- (iv) **Ensuring adequate analytical capacity:** Promoting policy coherence for development requires policies to be analysed from a developing country perspective and the findings used to influence debates in inter-agency policy co-ordination fora. USAID has the credibility to contribute authoritatively to discussions on the impact of broader government policies on developing countries. However, USAID's capacity to do so has been eroded by personnel reductions during the 1990s which resulted in the agency losing many of its professional staff. USAID is working to redress this situation but needs to ensure that it recruits some professionals with appropriate knowledge and experience who can engage effectively with other agencies to promote policy coherence for development.
- (v) **Using the United States field presence:** Each United States ambassador stationed in a developing country is responsible for co-ordinating USG agencies present in that country. In recent years, efforts have been made to increase co-ordination through regular meetings of heads of agencies and the preparation of annual Mission Performance Plans that provide a common strategic framework for all agencies. These efforts primarily work to ensure a common basis of knowledge in-country on each agency's activities and how they contribute to the mission's overall goals, thereby promoting synergies and reducing overlaps. Nevertheless, as each agency's primary mission is to implement its own objectives, these fora are not well placed to enhance policy coherence across USG agencies. At the same time, the importance of coherence of USG policies becomes apparent at the field level and these fora should be used to identify examples of possible incoherence to report back to each agency's respective headquarters.

- (vi) **Systematically vetting legislation:** Within Congress, there are signs that greater account is being taken of the consequences of United States legislation on developing countries. For example, it is reported that provisions in the 2002 Farm Bill were altered to reduce the potential negative impact on the poorest countries. This process could nonetheless be made more systematic as turnover of Members of Congress, and of their staff, is sufficiently rapid that a structure should be put in place to ensure that this approach is not dependent on the personal commitment of a small number of individuals currently holding office.

### **Future considerations**

There is a strong need to identify and address development **policy coherence** issues in the United States system. The size of the United States economy and its influence world wide means that even simple decisions of Congress or the Administration can drastically affect the impact of United States development co-operation.

As the primary USG advocate for development, USAID needs to play a stronger **leadership** role vis-à-vis other USG development agencies, in analysing and promoting development policy coherence decisions. It should seek out strong working relationships within co-ordinating groups such as the NSC and the PCC.

In accordance with the terms of the Recommendation to Untie ODA to the least-developed countries on effort sharing, the United States should undertake its best endeavours to identify and implement supplementary actions to untie its **bilateral assistance**.

Given the importance of the proposed MCA in ODA volume and development effectiveness terms, it will be crucial to ensure consistency between United States selection criteria and those being used by other members of the donor community.

## CHAPTER 5

### ORGANISATION AND MANAGEMENT

#### Rationale for organisation and management change

The history of United States development organisation has been one of change in response to pressures external to it, most frequently emanating from the United States Congress. If Congress has been a primary reason for the diversity of American approaches to aid organisation and management, it also has been occasionally a force in trying to bring greater cohesiveness to the system. For example, in an attempt to address the issue of aid organisational coherence, legislation was proposed in 1978 to reorganise aid management structures under an umbrella organisation, the **International Development Co-operation Agency (IDCA)**. Although enacted into law, and established by Executive Order in 1979, IDCA effectively existed for less than two years. After 1981, the USAID Administrator took on the second title of "Acting" IDCA Director. This arrangement was intended to give the USG a system umbrella to co-ordinate the many faces of United States development co-operation, including USAID, the Departments of Treasury and State and OPIC. It would have also created an International Development Institute to co-ordinate among private and voluntary organisations, including the United States Peace Corps. IDCA was operational for only a very brief period of time (1979-81) after which it lay moribund until it was formally abolished in 1998. Also worthy of note was the more recent attempt by USAID, over the decade of the 1990s, to "re-engineer" its organisation and management along more strategic lines. **Re-engineering** left the agency with a sense of corporate values and strategic vision that were undoubtedly a major source of its modernisation just after the end of the Cold War. It also conveniently responded to budgetary imperatives and led to an unfortunate, precipitous down sizing of staff in Washington and the field. This brief overview of selected past attempts at organisational change and adaptation is a reminder of the persistent difficulties encountered by the United States in its attempts to find a development co-operation system that services the needs of its constantly evolving political and public perspectives.

Current USAID leadership would like to create a new sense of vision for overall United States development co-operation that is built around its experience and leadership. To do so, and to re-establish the credibility of the agency as perceived by the United States Congress, it is first attempting to reform its operational systems so that they work in increasingly transparent and results-oriented ways. The new MCA emphasis on results-based poverty reduction is viewed as a powerful new impetus for change in this respect and promises to offer a timely opportunity to more broadly "refocus the management of aid".

#### Organisational change

The key agencies of United States development co-operation are loosely affiliated, albeit with different mandates, and come together in a flexible and *ad hoc* manner in moments of crisis or in specific situations that require accentuated collaboration. Their limited identification with a unified

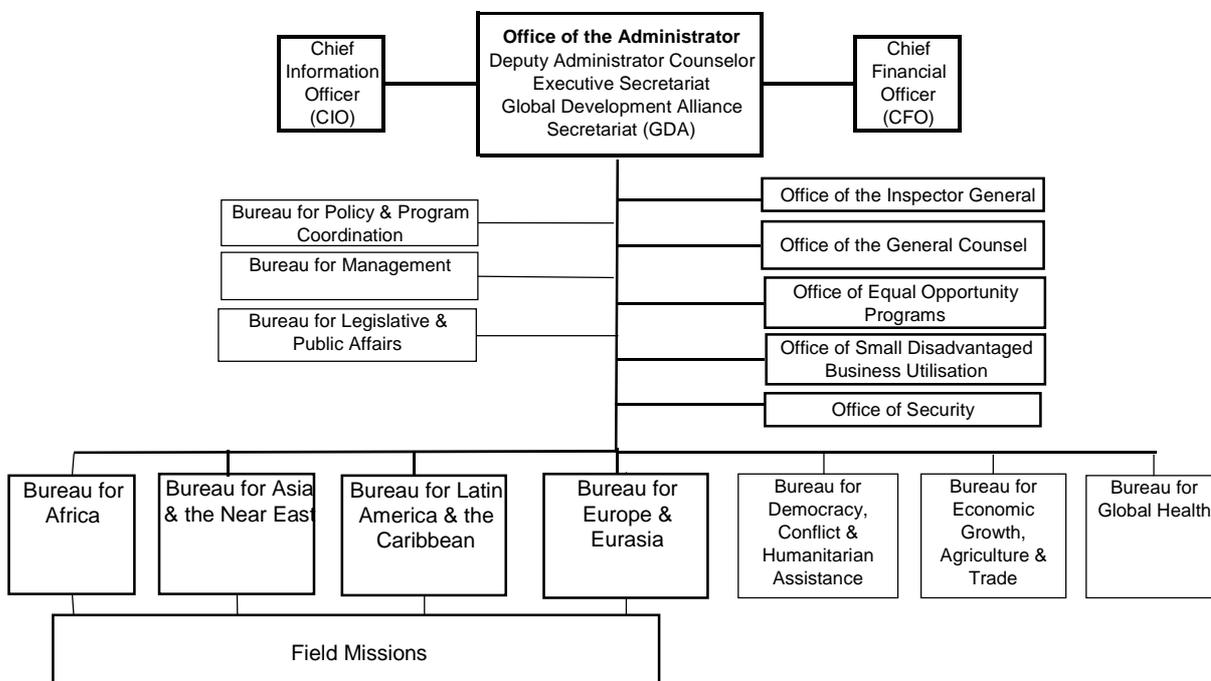
*United States*

system of development co-operation means that routine institutional linkages and regular consultation and communication among them are generally not strong. In terms of their respective mandates and the size of ODA they currently manage, USAID is the lead bilateral agency and the Departments of State and Treasury are the lead multilateral ones. Overall co-ordination of these actors is increasingly the role of the NSC, an adjunct of the White House.

*United States Agency for International Development*

USAID, an independent federal government agency, is responsible for implementing (primarily bilateral) United States foreign assistance programmes. The Administrator of the agency formulates and executes foreign economic and development assistance subject to the policy guidance of the President, the Secretary of State and the NSC. USAID did not become a statutory agency of the USG until 1998, and the “temporary” status that it carried until then masked the fact that it is responsible for all levels of bilateral aid management. USAID is often thought of as exclusively an executing agency for the Administration or Congress, but in reality is a comprehensive body that manages strategy, policy and feedback of United States development experience, as well as implementing it. USAID is currently responsible for slightly more than one-half of overall ODA and some 2/3 of all bilateral ODA. USAID currently has activities under implementation in 164 countries, although it only has resident staff in 70. Washington headquarters maintains links with these field missions most directly through its four regional bureaus, each of which has primary oversight responsibility for the countries in its respective geographic area. A recent organisational chart of USAID headquarters is noted in Chart 2.

**Chart 2. USAID organisation**



Source: USAID.

### *Department of State*

The Department of State is the lead United States foreign affairs agency, and the Secretary of State is the President's principal foreign policy adviser. As such, it implements a very broad range of foreign policy objectives, including diplomatic, military, economic and a wide range of other issues. At the level of development co-operation, and particularly its relationship to ODA funds (almost 1/5 of the total), it is a leading USG actor for support to the United Nations system and other qualifying international organisations, for migration and refugees, and for narcotics-related development actions. The department also supports the foreign affairs activities of other USG entities including the Department of Commerce and USAID. It has limited development and overseas management expertise and generally relies on USAID to implement the development portions of its politically negotiated assistance programmes (e.g. Camp David Accords, Afghanistan or narcotic crop substitution activities) and other State-inspired development efforts. It maintains an extensive system of embassies (143 countries) that have limited responsibility for oversight and support of USAID and other USG agency aid operations overseas (see Chapter 6). The portions of the Department's organisation of special interest to development co-operation include the Office of Economic, Business and Agricultural Affairs, the Office of Political Affairs (particularly the Bureau of International Organisation Affairs), and most bureaus of the Office for Global Affairs. These administrative units have been shaded on the organisational chart for the Department of State found in Annex VI.

### *Department of the Treasury*

The Department of the Treasury implements a wide range of domestic and international financial, tax, economic, enforcement and management policies of the USG. Its role in development co-operation is essentially located in its Office of International Affairs (headed by an Under-Secretary), and, more specifically, within the Bureau for International Development, Debt and Environmental Policy. The Treasury does not have, therefore, a strong "developmental" perspective, but parts of its organisation are nevertheless in charge of USG relationships with a significant aspect of the world development co-operation system, especially the World Bank and the international financial institutions. The Treasury Department employs 165 000 staff, almost all of which are located in the United States. Annex VI contains a simplified organisation chart of the Treasury, the developmental portions of which have been shaded for identification.

### *Other key agencies*

In terms of their responsibility for smaller amounts of ODA (altogether representing some 1/5 of the total), the following USG agencies are also worthy of mention here:

- The **Department of Agriculture** is responsible for provision of international food aid, which it either implements through USAID (Title II, Title III and emergency assistance) or through its own organisation (Section 416(b), Food for Progress and Title I). It has a small number of Agriculture Attachés strategically located in embassies abroad.
- The **Department of Defense** undertakes a variety of ODA eligible tasks, including support for narcotics control, humanitarian assistance (see Box 14) and de-mining. Special development staff may be located in countries with large involvement by the department.
- The **Department of Health and Human Services** undertakes the refugee resettlement programmes in the United States and has recently undertaken growing responsibilities

for the combat against HIV/AIDS and other global diseases. Increasingly, the department is placing its career and contract staff in the field to direct implement these activities.

- The **Peace Corps** now places some 7 000 volunteers in 70 countries. While a very independent agency, its interest in development issues and its network of technical volunteers around the world make it an appreciated ally of USAID.

**Box 14. Examples of United States Armed Forces humanitarian training exercises in Guatemala**

Thirty-five United States Army military personnel from Jacksonville, Florida conducted a medical assistance mission on 27 and 28 February 2002 in the communities of Jícaro, San Agustín Acuastatlán and Teculután in Guatemala's El Progreso department. The group included six doctors, two dentists, seven nurses and a pharmacist, along with technical and administrative support personnel. Guatemalan Army medical personnel joined the American team in providing treatment to more than 1 000 people a day. The medical mission provided medical and dental services free of charge to local residents while the United States personnel and their Guatemalan counterparts practised their skills under field conditions.

An 11-member medical team conducted a ten-day humanitarian and training exercise in January and February 2002 in communities of Guatemala's Quiché Department. The doctors, nurses and technicians were United States Air Force personnel from Scott Air Force Base, Illinois. They offered services in paediatrics, general medicine, dentistry, ophthalmology and obstetrics/gynaecology at four sites, attending up to 500 local residents a day. Services, medicines and eyeglasses were provided free of charge. They worked as a team with Guatemalan Armed Forces personnel, who also attended patients and provided translation and other support for the mission.

***Non-governmental organisations***

**NGOs**, and the NGO subcategory of officially registered **PVOs**, work extensively in the development co-operation area. In the United States, they are often large, well-funded and even politically influential. The Global Development Alliance announced by USAID last year appears to offer these organisations even greater latitude to influence the overall course of United States development co-operation and should help to make these NGOs even stronger partners. Their primary link with USAID organisation is at the level of the Office of Private and Voluntary Co-operation in the Democracy, Conflict and Humanitarian Assistance Bureau. A wide variety of NGO associations represent the collective interests of their members in discussions with USAID, Congress or other parts of the United States aid system. Examples of these NGO intermediary groups include Interaction, which represents some 160 members on a variety of development issues, or the Advisory Committee on Voluntary Foreign Aid (ACVFA), which is an advisory board of private development specialists, appointed by the Executive branch to offer independent counsel to the USG on development policies. These NGOs are joined by a growing number of **privately-endowed foundations**, among the more visible development examples of which are the Bill and Melinda Gates Foundation (USD 23 billion endowment) and the Turner Foundation (USD 150 million in assets), who manage significant development activities in health, education and environment. Collectively, these NGOs are seen by the USG and the American public as key contributors to national efforts to help the developing world. Their development experience overseas has grown rapidly in the last decade and their opinions are seen by many Americans as important alternative perspectives on the topic of development co-operation, especially in relation to themes treating poverty reduction and grass roots development.

### ***Organisational co-ordination***

Co-ordination of development co-operation has frequently been cited as a weakness of United States foreign aid organisation. Co-ordination does take place, however, and traditionally is organised in a more *ad hoc* and pragmatic manner, depending upon need. Thematic working groups (Afghanistan, debt, disaster relief, etc.) are extensively used in this manner to collaborate among agencies on emerging issues of particular importance. Recurrent collaboration (on strategy planning, budget co-ordination, or special inter-agency implementation agreements<sup>28</sup>) will often lead to a predefined series of steps or consultations to ensure minimal collaboration between or among target agencies. Selected central agencies (OMB and NSC) also watch over and comment on the way agencies do or do not collaborate. The sum total of these different co-ordinating groups has undoubtedly contributed significantly to improved USG inter-agency development co-ordination, but does not add up to a systematic process for mutual collaboration. Meeting agendas and outcomes will tend to depend on the specific agency that organises it. Seen in the sense of a broader, team effort, such groups may often have focussed, bureaucratic agendas and frequently do not invite unofficial members of the development community. The NSC currently has a mandate to improve the quality of inter-agency co-ordination across the Administration. Between 2000 and 2001, following the enactment of the Foreign Affairs Reform and Restructuring Act of 1998, State and USAID accelerated efforts to work more closely in making development and other economic assistance a central element of United States foreign policy. Steps were taken to enhance co-operation and co-ordination between the two agencies, including a number of actions in the policy, programme, budget and implementation processes. The establishment of the PCC on International Development and Humanitarian Assistance, as mandated by National Security Presidential Directive 1, is another step taken by the United States to improve co-ordination on a wide range of development issues.

It may well be, as some have suggested, that USAID can no longer respond to repeated reforms of its organisation, including staff and budget cuts, without rethinking its own role in the future. One view, expressed by the ACVFA seems provocative in this respect. ACVFA believes that USAID has an historic opportunity to move away from its traditional role as an implementer of aid, to one of development enabler and facilitator. Under this scenario, USAID would focus more on building the capacity of, and fostering consensus among, its United States and foreign partners, rather than on the micro-management of its own activities in the field. This approach would place the agency in a role of knowledge, technical and co-ordination excellence and facilitating. It would emphasise a new operational relationship with United States, local and international partners, with other USG agencies and with multilateral and regional institutions. USAID would be at the organisational centre of USG development co-operation and would do so with “strong professional staff, equipped to deal at the highest level with a broad range of development partners and issues”. This proposal would seem to address several of the perceived weaknesses of United States development organisation. Yet, despite the Agency’s relationships and experience in the developing world, it currently lacks the strong political support that would be necessary to carry out such a mandate. Perhaps the new paradigm offered by the MCA will give the agency an opportunity to test its capacity in this manner.

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28. Examples of recent attempts to use inter-agency agreements in development co-operation includes the annual Peace Corps-USAID Small Project Assistance Agreements and the 2001 Memorandum of Understanding between the CDC and USAID on HIV/AIDS joint programming.

## **Management change**

### ***Management of results***

Results-based management is often seen as synonymous with the effectiveness of aid and has long been an issue with the Congress whenever it has stressed the need to ensure “value for money”. Because development co-operation is a minor occupation for most agencies, this Peer Review examines only the management of results for USAID. Following the Government Performance Results Act (GPRA) of 1993, USAID now maintains, at the level of every operational unit:

- A **multi-year strategic plan**.
- An annual **performance plan** (USAID tracks the four “pillars” noted earlier and six management reform initiatives mentioned later in this chapter).
- An annual **performance report**. The building blocks of performance feedback begin in the field, from the entities (contract, NGO, government or other) who actually implement the activities, and are progressively aggregated, analysed and reported, first at the “strategic objective” level (usually quarterly reporting), at the country mission level (annual reporting), then at the level of headquarters (annual reporting).

It should be noted that USAID volunteered to be one of the handful of agency “learning laboratories” for such a government-wide, results-based management approach soon after the GPRA became law (see Box 15), including a design phase in 1994-95 and an initial implementation phase in 1996-97. Since the 1998 Peer Review, the agency has been engaged in revising its approach, based on feedback and assessments of how the initial reforms were performing. Although opinions vary, some observers have found the agency’s efforts in this area to be one of the more advanced amongst USG agencies. While several accomplishments have been registered by USAID since 1998, the methodological difficulties inherent in embarking on such ambitious reform of older management systems have proven to be considerable and the agency has yet to convince the sceptics. Whether it is the OMB or the United States Congress, loud voices are still calling for simpler, user friendly and more convincing approaches.

USAID itself recognises that it must continue to probe in new directions to simplify reporting procedures and to reduce its burden on field staff, while enhancing the credibility of performance reporting. One innovation in 2002 was to drop the normal annual field mission reporting of detailed results, in favour of an Annual Report that used a much simplified format. Analysis of the utility of this first year is still underway, but early comments noted in Uganda suggest that the new format may create a redundant reporting channel and fails to empower the mission to “tell its story”. Undoubtedly, such commentary is indicative of the fact that the difficulties of a results-based management system have not yet been mastered.

Many management specialists also believe that it is fundamentally important for any results-based system to establish a clear linkage between performance and budget allocations. USAID points out that, under the current system, the budget allocation process across countries is a complex process that includes shifting political pressures, earmarks, historical patterns and number of other criteria. Further, some specialists within USAID fear that too explicit a link between programme performance ratings and country funding allocations could actually create disincentives for truthful self-assessment by operating units.

No matter which judgement is held on the current status of USAID results-based management of its programmes, most agree that the agency is attempting an important experiment in testing such a system. It is an effort that warrants the attention of the international organisations and merits comparison with attempts at similar management systems elsewhere among DAC members.

**Box 15. A national policy for results-based management – the GPRA**

The Government Performance and Results Act of 1993 was intended by Congress to shift the focus of government decision-making, management and accountability from activities and processes to the results and outcomes achieved by federal programmes. Under GPRA, annual performance plans are intended to clearly inform the Congress and the public of:

- (i) The annual performance goals for major programmes and activities of each agency.
- (ii) The measures to be used to gauge performance.
- (iii) The strategies and resources required to achieve the performance goals.
- (iv) The procedures to verify and validate performance information.

These plans are now in their fifth year of implementation. Annual performance reports for each federal agency now report on the degree to which performance goals were met.

### **Staffing**

USG statistics are not organised so as to provide an integrated view of all official staff responsible for issues of development co-operation. This section has pragmatically limited its overview to the personnel management system of USAID, which nevertheless represents a significant portion of leading USG development staff.

USAID career professionals (United States “direct hires”, equally split between foreign service and civil service categories) currently number 2 152, some one-third of which are located overseas and the remainder in Washington. In addition, the majority of professionals and practically all support staff (secretaries, administrators, drivers, etc.) in overseas missions is drawn from other sources, particularly local personal contracts, most of whom are local nationals. Taken together, the total for USAID staff world wide is 7 920<sup>29</sup>. Agency career professional staff is almost equally divided between males and females. Female representation is 33 % at the level of agency Senior Foreign Service leadership. It is important to note that the key category of “direct hire” career staff has decreased in size by some 11% since the 1998 Peer Review, and reflects a sustained longer-term trend of “downsizing” (-37%) over the last ten years. This reduction in the size of career staff was noted in both the Uganda and Guatemala field visits. In both countries, it was noted that the relatively small numbers of direct hire staff frequently functioned as contract managers, while actual development operations were implemented by private sub-contractors or NGO sub-grantees.

A major personnel issue may be looming on the horizon – that of **retirement**. USAID statistics show that one-third of the entire Foreign Service workforce is currently eligible for retirement and that the number will grow to over one-half within the next four years. Employees eligible for retirement, not

29. World-wide USAID staff numbers as of May 2002: United States Direct Hire: 2 152, local career nationals [Foreign Service Nationals (FSN)]: 179, local, third-country and United States national Personal Service Contractors: 5 140, other: 493.

surprisingly, are located heavily in echelons of agency senior leadership. Since 1999, USAID has prepared and implemented an annual **Foreign Service Recruitment Plan**, which defines recruitment needs over a five-year timeframe. Under the plan, the agency currently recruits two classes of new entry employees each year. Some 178 such employees have been recruited since the programme began in 1999. The current effort, when contrasted with the above potential for significant senior departures due to retirement, appears to be very modest and merits the priority attention of agency leadership.

Because of the critical importance of the agency's professional staff to its operations, overall personnel policy should be kept under review by its leadership. This includes the staffing implications of new strategic directions and flexible ways in which the workforce can maintain contact with leading ideas and experiences of development outside the United States system. Swapping staff with other donors in headquarters or the field is one example that was raised during this review. Also, because of the large size of qualified professional local staff employed by the agency (and other donors) in missions abroad, it is felt important to periodically review possible negative side-effects of this practice, including potential "brain-drain" from local institutions, whether public sector or civil society.

### ***Management reform of overall "Business Systems"***

USAID has been criticised by the United States Congress for having weak internal management systems, recently characterised by the Chair of one leading committee as "a cumbersome, overburdened procurement system and dysfunctional personnel and financial management systems". Cognisant of the need to reform these systems quickly in order to deal with these important perceptions and to maintain the credibility of the agency, the USAID Administrator has placed this reform high on his list of priorities. Six separate reform initiatives were begun last year, for which best approaches are currently being examined. An overall vision for business system modernisation is expected later this year. The six "business system" initiatives officially announced are:

- **Human resources management:** The agency will expand its talent pool by recruiting junior-level Foreign Service professionals and focusing on key skill areas in the Civil Service, such as procurement and information technology. A Civil Service Recruitment Plan, similar to the Foreign Service Plan, is expected later this year.
- **Procurement:** In addition to last year's introduction of an automated contract-writing system, USAID is preparing a competition plan to facilitate outsourcing of selected functions currently performed by its staff. According to the OMB, the agency has not completed competition on 15% of its commercial functions. USAID intends to submit its competition plan in the upcoming year.
- **Financial management:** Congress complains that USAID accounts have been "un-auditable" in recent years, suggesting a situation that merits decisive response. The agency plans to enhance its core accounting system, only installed last year, to provide more accurate and timely financial information and to improve accountability and regulatory compliance. This system is now in place in Washington headquarters, but has yet to be deployed overseas. This means that almost 50% of USAID-managed funds are currently not in the system. A study of the most cost-effective concept for overseas deployment of the system is expected in late 2002.
- **Information technology:** In 2001, USAID ensured that all overseas posts have reliable access to agency systems and to email, and actions are now being initiated to reduce the possibility of unauthorised access. The modernisation of information technology has been included in the FY 2003 budget and plans are now being drawn up for its

implementation. Areas of special interest include accounting, procurement, operations upgrades, and general forward-looking, world-wide information technology planning and budgeting.

- **Strategic budgeting:** In 2001, USAID shifted its budgeting function to the Policy and Programme Co-ordination Bureau (PPC) to more closely link resources with policy priorities. This was an area of special attention raised by OMB in its recent review. In accordance with the GPRA, USAID has been asked to better integrate its performance feedback with budget planning, so that it becomes a comprehensive aspect of the agency-wide system. USAID will soon submit an initial performance plan in this respect to OMB, and has indicated a desire to better co-ordinate with the State Department in integrating performance factors into budget formulation.
- **Performance measurement and reporting:** The agency is attempting to better “streamline, simplify and improve” its annual performance reporting process, starting from that of its field missions and other operating units, and aggregating up through its agency-level reporting.

### Future considerations

USAID seems well placed to work with the NSC and other USG partners to promote a more proactive system of **inter-agency development co-ordination**.

As USAID attempts to modernise its organisation and management in ways that are responsive to immediate concerns of its domestic constituencies, it needs to place its reform efforts in the broader context of **international efforts** towards greater aid effectiveness and sustainability. The USG continues to be a major voice in international development co-operation. DAC members and partner countries alike will benefit from the continued strong collaboration of the United States on aid management issues.

OECD reviews<sup>30</sup> of government-wide **results management** suggest that current USAID attempts at performance-based approaches within its agency are on the right track. Given USAID’s need to improve credibility with the Congress, the results orientation of the MCA, and the apparent opportunity for USAID now to exercise its leadership skills in USG development co-operation, this could be a tactical moment for the agency to more aggressively address this issue. Aid effectiveness is an important topic for all donors, as well, and USAID could potentially form a strong alliance within the DAC to move forward with internationally acceptable and convincing results-based approaches for the future.

USAID is the lead USG agency for development co-operation. It has suffered from sustained reductions in its career **staff** over the last decade and now needs to reflect, at the highest level, on its size and skill mix. This should include contingency planning for potentially high levels of attrition among its leadership due to retirement. Human resource planning for the longer-term would seem important, in this respect, as USAID contemplates new strategic directions and personnel needs for the future.

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30. See, particularly, the last two years of comparative analysis of results-focused management by the OECD Public Management Service (PUMA).



## CHAPTER 6

### COUNTRY OPERATIONS<sup>31</sup>

#### Description of USG country development organisation

The primary USG development co-operation presence overseas is **USAID**. It maintains a field presence in 70 countries. Depending on the importance of the programme, these missions are generally well staffed. For example, the two missions visited by the Peer Review had an average annual funding level of USD 67 million, for which they maintained an average professional staff size (career and contract) of 35. As a point of comparison, the largest USAID mission in the world is Egypt, with over 100 professional staff for an annual funding level of USD 700 million. USAID missions are usually headed by a Mission Director, who is delegated considerable authority to manage its operations. The Mission Director works under the general co-ordination of the Ambassador at post but administratively reports directly to the appropriate geographic bureau in Washington (Africa, Latin America, Asia and Near East or Europe and Eurasia). USAID missions are delegated authorities and funding on the basis of a Washington-approved country or regional Strategic Paper. The Strategy Paper is a multi-year planning document (usually covering 5-7 years) that is built around a small number of focussed strategic objectives. It includes a description of results expected at the end of the strategy period and a sense of the size of funding needed to obtain those results.

Most **other USG agencies** with an overseas development presence (especially State, occasionally Health and Human Services, Defence or Treasury) tend to be administratively housed, for convenience, within the United States Embassy. The major systematic exception is the Peace Corps, which has a policy of maintaining its special identity outside the embassy compound. USAID is now also being increasingly moved within the walls of the embassy, for questions of security, although it would prefer generally to be better integrated elsewhere in the local community within which it works. Other agencies at post, no matter where located, will frequently maintain close contact with USAID on technical development issues. In most developing countries, USAID represents the largest USG presence on the ground, in terms of funding. In the case of Uganda and Guatemala, for example, USAID funds represented over 90% and 80% respectively of the USG total portfolio.

All agencies at post provide input to the construction of a multi-year Mission Performance Plan, which is submitted as a statement of Country Team strategy by the ambassador to State Department headquarters. The plan contains little technical analysis and is considered by most agencies to be essentially a Department of State internal document. Nevertheless, it does provide a framework logic for United States official presence in-country, is a reason for Country Team co-ordination and leads to an annual opportunity to monitor general performance against indicators.

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31. Much of the commentary in this chapter was drawn from observations obtained during Peer Review field visits to Uganda and Guatemala. Reports on these visits are located in Annexes VII and VIII, respectively.

## **Co-ordination and complementarity**

### ***USG co-ordination in the field***

Co-ordination for USG agencies in the field is led by the local United States Ambassador, who is officially the President's representative at post. The ambassador relies on a "Country Team" mechanism, which includes representatives of all agencies at post and which he/she chairs, to ensure broad oversight. Depending on local conditions and personalities, the Country Team may be further broken down into working groups, themselves built around the strategic expectations of the Mission Performance Plan.

The current trend of diversifying the number of USG development agencies at post, if continued, will lead to the need for new forms of USG co-ordination in the field. In Uganda, for example, the Peer Review examined a major parallel effort in HIV/AIDS research and testing that was being led by the CDC, and to a lesser extent, by the National Institutes of Health. Both are administratively linked to the Department of Health and Human Services. Previously, such an effort would have been administratively co-ordinated through the existing USAID programme for HIV/AIDS. But the fact that the CDC now receives its funding directly from Congress has permitted it to set up a separate office. It is outside the embassy and run by an office of 120 staff (of which five expatriate career staff). Anticipating the possibility of redundancy of effort in this priority area, CDC and USAID recently signed a Memo of Understanding to co-ordinate more explicitly their joint efforts. Nevertheless, it serves as a reminder of the potential, longer-term need for more comprehensive strategy and implementation oversight and co-ordination of USG development activities in the field. For the United States Ambassador in both Uganda and Guatemala, the logical answer to this issue was to emphasise the role of the USAID Mission Director to maintain a modicum of professional oversight of the larger USG development presence at post. Leaving ultimate responsibility for proper USG co-ordination to the individual ambassador is an effort of last resort, however, given the system-wide nature of the issue. An example of broad USG co-ordination is presented in Box 16.

#### **Box 16. Co-ordination for Hurricane Mitch**

A recent experience with the Hurricane Mitch supplemental reconstruction programme in Central America offers one perspective on USAID's ability to foster USG inter-agency co-operation in the field. In the wake of the massive damage caused by the disaster in October 1998, and following the considerable emergency assistance that was provided that year, the White House and Congress decided that USAID would co-ordinate a USD 96 million reconstruction effort, which was to involve twelve USG agencies. Many of these agencies had no previous overseas experience or presence. Over the course of the following thirty months, Washington and USAID missions in the affected countries laboured to pull together the necessary co-ordination of effort. This included the need to establish an overseas presence for the other agencies, to provide critical administrative support, to determine the needed technical support, to integrate individual contributions into the larger United States efforts, and to co-ordinate with other donors to avoid duplication of effort. Despite the logistical and bureaucratic challenge, the combined multi-agency effort led by USAID was considered by most to be a success. The Final Report on the Hurricane Reconstruction Programme, issued in July 2002 by the GAO, provided a detailed confirmation of USAID's effective co-ordination.

### ***Building local partnerships***

Beyond the need for co-ordination within the USG foreign aid system, the USG (particularly USAID) increasingly is called upon to work collaboratively with local partners so as to avoid unnecessary overlaps, to increase the effectiveness of overall aid and to support the concept of host country ownership. Peer Review field visits to Uganda and Guatemala supplied examples of the extent to which donors have constructed extensive collaborative structures to address this need. In both countries, the local USAID mission showed major support for these collaborative structures and participated in them. Nevertheless, as noted in the Uganda example below, its ability to co-ordinate may be structurally hindered by current USG operating rules (*e.g.* earmarking of funds, restrictions on budget support and disciplined approach to obtaining specific results).

One additional level of local co-ordination is that pertaining to the international financial institutions. USAID currently uses an “Early Warning System” to systematically provide co-ordinated USG field input to new projects under review by the United States Executive Director on the approval board. It is suggested that USAID explore the potential for extending this useful field reporting system to other local donors as well, so as to obtain a more complete and more co-ordinated local donor response to new multilateral projects under review.

### **The field view of monitoring and evaluation**

USAID’s large field presence and emphasis on implementation has led the field missions to focus heavily on results management. The strategic objective approach to implementation used by the agency has led missions to maintain an ongoing and very intensive process of strategic results monitoring. This task orientation and emphasis on management around a pre-specified number of expected results has had at least three effects: (i) It requires a major effort of senior field managers to ensure that the mission maintains a sense of flexible vision, whilst most staff are engaged in day-to-day task management. (ii) Missions have found themselves so involved in detailed measurement and reporting that they have difficulty “just telling the story” to key external observers such as Congress and the American public. (iii) The preoccupation with results monitoring has led the agency to move away from use of the instrument of evaluation. More targeted evaluations could be useful to system learning and particularly in comparing performance among overseas missions. Both Uganda and Guatemala USAID missions and others in the poorest countries could work within the format of the local PRSP. The specific reporting requirements by the agency’s feedback system appear to restrict the extent to which missions can participate in common PRSP approaches to monitoring and evaluation, however. This could be easily adjusted by Washington encouragement to field missions to actively research opportunities for joint, monitoring and evaluation.

### **Lost opportunities: Decentralisation or simply a major field presence?**

At several points in its history, USAID has noted with pride that its longstanding **policy to decentralise** staff and implementation authority is one of its greatest strengths. The Peer Review field visits permitted the review team to observe the quality of staff and aid organisation in two USAID target countries. Most field staff seemed proud of this considerable decentralisation of resources and decision-making, yet, if prompted, also pointed to its current limitations. The current USG programming practices permit heavy Congressional earmarking of funds, the associated reporting requirements and selected limitations in using the fullest possible array of alternative approaches (*e.g.* budget support), do not permit USG institutions such as USAID to take full advantage of its considerable local capacity. Appropriate changes in Washington policies in these (particularly

Congressionally inspired) areas would permit greater local ownership, enhanced USG efficiency and impact, improved job satisfaction among official staff and enhance both USG leadership and image among its partners. A more specific example of the effect of this Washington-centric programming bias is noted in Box 17.

**Box 17. Decentralisation issues in Uganda**

**Country ownership** in Uganda is a major emphasis of the collective donor effort there. The Ugandan approach to poverty planning (*Poverty Eradication Action Plan* or PEAP) is a remarkable example of host country strategic ownership of the programmes embraced and funded by donors in country. The strategy, and the operational approach used to implement it, represent a clear invitation by the Ugandan government to policy dialogue with all partners. Several large local donors have seized upon this invitation to creatively work within the framework of the PEAP to drive a broader donor change process experiment. This included the use of co-ordinated budget support, the rethinking of the use of technical assistance, the harmonisation of donor procedures, the creation of a common system for monitoring and evaluation and the review of a system of common reporting. The broad shaping of budget in Washington by Congress, and to some extent the Administration itself, has encouraged USAID into the important but already heavily funded basic health area, while important areas of USG comparative advantage, such as economic growth or democracy, were less emphasised because of limited availability of funds in those accounts. Similarly, USAID could play a strong role among interested partners in contributing to the macroeconomic policy dialogue, if it had a clearer Washington mandate in that area and was able to participate more flexibly in the local budget support funding experiment.

At the level of **strategy**, the embassy Country Team (especially through its Mission Performance Plan) and USAID (especially through its Strategy Paper) have dedicated a major investment to the development of a mature strategy for local action that reflects the realities of Uganda. Given greater freedom to explore the full range of strategic options, the prioritisation of USG development strategy could easily have been different, and arguably, given the opportunity would have shown greater emphasis on the economic growth and democracy areas, for example. Because of the well-organised and co-ordinated system that was constructed in Uganda around the theme of poverty reduction, USAID actually chose poverty reduction as its overarching Strategy Paper goal. The programming constraints noted above necessarily limited its ability to explore all options to identify the optimal ones. Finally, numerous comments were received from USG-sponsored implementation entities (contractors, NGOs) and other partners concerning the statutory and administrative constraints represented by the “**Buy America**” policies of the USG.

**Future considerations**

**The proliferation of USG development agencies in the field** appears to be a growing phenomenon. Either the Congress should re-examine its practice of directly funding development co-operation outside of the USAID framework, or each agency, at the level of headquarters, should ensure that appropriate co-ordination arrangements are in place prior to beginning field operations. In order to provide some leadership among agencies in this area, USAID could usefully undertake its own review, so as to raise the level of awareness of other key development agencies. It could potentially be an issue that is taken up with the NSC or in the context of the Development PCC.

The policy of **decentralisation** used by USAID supports greater effectiveness in the use of aid and can provide major encouragement for host country ownership. Yet, the large presence fielded by USAID

appears compromised by current Washington-centric approaches to funding (*e.g.* earmarking) and other top-down directives. It is suggested that USAID evaluate the current restrictions on its decentralisation policy to more proactively support the kinds of system modifications that would liberate the full potential of the decentralisation concept. This would seem consistent with both the intent of the current MCA proposal and with the feedback on aid effectiveness that is growing at the level of the DAC.

At the level of **monitoring and evaluation**, experience in the field has demonstrated the importance of joint partner efforts, so as to provide a mutually reinforcing system of peer oversight while reducing the need for redundant feedback systems. USAID field missions should be encouraged to participate and even initiate such collaborative approaches.



## ANNEX I

### **BRIEF HISTORY OF THE ORGANISATION OF THE UNITED STATES AID PROGRAMME**

When asked how future historians would characterise the 20<sup>th</sup> Century many years hence, the British Historian Arnold Toynbee, who thought in terms of long cycles of history, said they might see it as the first century in history when rich countries decided it was in their interests to help poorer countries. The United States gave a strong impetus to this movement growing out of post-World War II experience with the Marshall Plan aimed at the reconstruction of Europe.

One could outline the periods of the modern United States foreign aid programme as follows:

- European Reconstruction and the Marshall Plan (starting 1948)
- Point IV Programme and Mutual Security Act (1949-53)
- Expansion into developing countries – predecessor agencies of USAID (1953-60)
- Foreign Assistance Act of 1961 – Alliance for Progress in Latin America – United States initiatives on international aid co-ordination and creation of the DAC/OECD (1960-62)
- New Directions on basic Human Needs (1973-80)
- Private Sector Orientation and Multiplication of Priorities (1980-90)
- End of the Cold War – Seeking a New Consensus (1990 to present).

Modern foreign aid entered the world stage with United States Secretary of State George C. Marshall's address at Harvard University on 5 June 1947 calling for a European recovery programme following World War II, combining aid to European countries within co-operative framework. On 16 April 1948, the recipients of the Marshall Plan signed the Convention establishing the Organisation for European Economic Co-operation (OEEC), the predecessor organisation of the OECD. Special programmes were also provided for Greece and Turkey in the late 1940s.

In 1949, President Truman proposed as "Point Four" of his Inaugural Presidential Address a programme for development assistance. The "Act for International Development", adopted by Congress in 1950, provided for implementation of the Point Four Programme.

The early American economic assistance programmes were administered successively by:

- The Economic Co-operation Administration (3 April 1948-31 July 1951)
- The Mutual Security Agency (1 November 1951-31 July 1953)
- The Foreign Operations Administration (1 August 1953 – 30 June 1955) and
- The International Co-operation Administration (1 July 1955 – 3 November 1961)

## *United States*

American aid was centred on Europe in the late 1940s and early 1950s. By 1955 aid to Europe dwindled and by the end of the decade was phased out for the most part. East Asia began to receive substantial amounts of assistance in the mid-1950s. Aid began to be provided to the Near East and South Asia in the late 1940s and early 1950s. Small amounts of assistance began to be provided to Latin America and Africa in the late 1950s.

Anti-communism and national security were the motivations for the provision of this aid, based on a belief that if standards of living were improved, people would be less attracted to communism. Although its primary motivation was strategic, the popularity of aid was reinforced by humanitarian considerations. The Marshall Plan had bipartisan support in Congress. It was a reconstruction programme seen as finite, which would end upon the attainment of a clearly defined goal – European recovery – that did become an obvious success.

In 1960, Under-secretary of State C. Douglas Dillon of the Eisenhower Administration was a key figure in the United States initiative to create the Development Assistance Group (DAG), the predecessor of the DAC. In 1960 the Kennedy Administration, represented by George Ball, joined in a Resolution on the Common Aid Effort whereby the members of the DAG agreed to make it their common objective to secure an expansion of resources for the less-developed countries and to improve the effectiveness of aid programmes. They agreed to review periodically the amount and nature of their aid, bilateral and multilateral, and to seek principles on which they might equitably determine their respective contributions to the common aid effort. DAG became the DAC in October 1961.

In 1961, President Kennedy proposed the Foreign Assistance Act of 1961, which was passed by Congress. An Executive Order created USAID. President Kennedy called for a special development effort in Latin America (Alliance for Progress).

The new approach to development under the Foreign Assistance Act scored some successes in Latin America and major development successes in Asia, most notably in Korea and Taiwan. However, perceptions of a growing gap between rich and poor and political turmoil were taken as evidence of limited impact of development aid in many other parts of the world.

*Development and the National Interest*, a report by the Administrator of USAID to the President in 1989, discusses how the fault lines in the American aid programme developed and pin-points the then largest single aid recipient in Asia, South Vietnam, as shedding the lost light on the strengths and limitations of American foreign aid. The report said:

“The material aspects of aid to South Vietnam were surprisingly successful. Standards of living were preserved and, in the short-term, economic opportunities grew. But, in the heat of the war, economic progress alone did not provide a sufficient basis for building a politically self-sustaining country. And the seeds of distrust sown between the Executive and Legislative branches continue to create problems to this day.”

Until the early 1970s, most of the United States assistance programmes was oriented to the building of economic and social infrastructure, education and training. The bilateral aid programme was basically split into two parts: the Economic Support Fund (ESF), the objective of which was to support United States economic, political and security goals in countries of strategic interest, in some cases related to military base rights or access rights agreements. The other part was Development Assistance (DA) Funds, primarily designed to promote economic growth and equitable distribution of its benefits. In fact, ESF has been largely used for traditional developmental projects and programmes no differently than DA funding.

By the early 1970s, a new generation of aid advocates had emerged in the United States. USAID had a cadre of development professionals. Moreover, a reservoir of knowledge and opinion about foreign aid also grew among PVOs, overseas contractors, returning Peace Corps volunteers and commentators on aid in universities and the press. Some people in Congress and its staff took a special interest in development aid. These groups began to talk about the need to replicate village-level experiences and grass roots development that would touch people's lives and addresses their basic problems. The "basic human needs" agenda of assistance that grew out of this movement took shape in the "New Directions" initiative of 1973 when legislation was passed to orient the American aid programme in that direction.

Through the 1970s, under both Republican and Democratic Administrations (President Nixon and President Carter), the American aid programme moved towards basic human needs, phased out major infrastructure projects which had been a hallmark of USAID programmes, but continued to operate under the same basic framework for foreign assistance as before. At the same time, Congress began to assert itself more by earmarking funds and starting the "micro-management" of the aid programme that has continued to the present.

Delegations of authority to field missions have been a constant factor in United States aid management. Field missions and the placing of staff in developing countries started in the 1950s and have continued to the present. One major difference took place following the pullout from Vietnam. Up to that point, USAID had fielded large numbers of direct hire technicians in projects throughout the world. At the high watermark in the late 1960s and early 1970s, USAID had 18 000 direct hires on the staff, many of whom were involved in the actual hands-on implementation of projects in the field. During the 1970s, USAID withdrew from this mode of implementing programmes and by the end of the decade had sharply reduced its direct hire staff, which were henceforth devoted to planning, budgeting, monitoring and evaluating. Programmes thereafter were almost entirely carried out through intermediaries (contractors, universities and the recipient government).

A dream of aid reformers, in particular Hubert Humphrey, the former Vice President under Lyndon Johnson, was to consolidate the government's aid activities into a coherent framework. An attempt to do that in the Carter Administration in the late 1970s resulted in the creation of IDCA which was meant to be the umbrella for aid-providing elements of the USG. After the negotiations were over, IDCA was created, but it changed nothing and remained a shell of no importance.

The Republican Administration in 1980 made no fundamental changes in the basic framework of foreign assistance, but gradually USAID moved more into private sector development, although it might be more accurate to say moved back into private sector development, since this had been a theme for USAID in the 1960s. USAID also moved increasingly into policy-based assistance and child survival. Population programmes, where USAID had been a leader, were given less high-level support and leadership, but continued nonetheless. These issues, added to other development concerns, created a proliferation of development priorities for USAID because as new issues and concerns emerged, they were added to USAID's mission but none were deleted. A reorganisation of USAID was made in the early 1990s, and the "priorities" problem was addressed by establishing four strategic areas under USAID's sustainable development agenda: encouraging broad-based economic growth, protecting the environment, building democracy and stabilising world population growth.

The Clinton Administration attempted to rewrite the Foreign Assistance Act in 1994. The draft legislation would have repealed the Foreign Assistance Act and substituted in its place a new account structure for foreign assistance. Based on programme objectives, its authorisations would have merged previously separate programmes into the same account. Thus, development assistance and those international organisations with a development focus would have been funded from the same account.

## *United States*

Considerable flexibility was provided in the way in which assistance could be provided and legislative limitations overcome. The new act ultimately failed and the Administration turned its attention to the organisational relationship of the foreign affairs agencies. This led to a decision, in 1998, to merge two small agencies into the State Department. Consideration was also given to the merger of USAID, but it ultimately retained its independent status, albeit with a closer relationship to State. At the same time, USAID, for the first time in its existence, became a statutory agency. The USAID Administrator, by statute, was required to “report to and be under the direct authority and foreign policy guidance of” the Secretary of State, rather than, as was the case under IDCA, by Executive Order to the President. Between 2000 and 2001, following enactment of the Foreign Affairs Reform and Restructuring Act of 1998, State and USAID accelerated efforts to work more closely in making development and other economic assistance a central element of United States foreign policy. Steps were taken to enhance co-operation and co-ordination between the two agencies, including a number of actions in the policy, programme, budget and implementation processes.

With respect to resources, the United States programme started at a high level. It has been estimated that the USD 13 billion disbursed during the Marshall Plan era over 3-4 years to only 16 countries would be the equivalent of 84 USD billion today. The ratio of foreign assistance to GNP was over 2% during the Marshall Plan. It has been on a declining trend since then reaching its all-time low in 1997 at 0.09%. It now represents about one-half of 1% of United States budget outlays.

## **ANNEX II**

### **GLOBAL DEVELOPMENT ALLIANCES UNDER FORMATION**

#### ***Water for the poor***

The toll on human life and health exacted by poor quality and insufficient water supply is huge, especially for the poor. Water-borne and water-related diseases, coupled with poor sanitation and hygiene, kill at least three million people annually, primarily children younger than age five. USAID, in conjunction with a major foundation, an NGO and private philanthropists, is helping form a global alliance for the development of potable water supply for the rural poor in West Africa initially, with expansion to other under-served countries in the future. The alliance plans to blend USAID's expertise in promoting sustainable water systems and its on-the-ground presence with significant investment in the sector from non-federal partners.

#### ***Forest Certification***

Major United States and European retailers of timber and timber products have made a public commitment to increase the quantity of timber they sell which is certified as having been produced by environmentally sustainable methods. Meanwhile, illegal and environmentally damaging logging continues, and the supply of certified timber is very limited (less than 5% of the tropical timber sold in the United States is certified). USAID is planning to partner with socially responsible investment groups, timber retailers and environmental NGOs. The alliance will assist producing countries and local groups in meeting certification standards and in implementing forest-level community development activities, thus increasing incomes for local communities and decreasing negative environmental impacts.

#### ***Coffee***

Plummeting coffee prices are devastating for millions of small farmers and workers in the coffee sector in Central America, East Africa and elsewhere. Farmers are being forced off their farms, children are dropping out of school and unemployment and migration (both to the cities and illegal migration to the US) are rising. USAID will support world-wide interventions to improve coffee quality and marketing efficiencies so that farmers get higher prices, strengthen producer groups and promote diversification to other crops in cases where coffee production is not likely to be profitable. Potential partners include United States coffee associations, private coffee companies, producer groups, NGOs and consumer groups. USAID plans to provide grants for field-level activity and co-ordination of region-specific initiatives for greater leveraging of private resources.

## ***United States***

### ***Education***

USAID is competitively soliciting co-operative agreements for an education alliance. This partnership will collaboratively define an education need and its solution, and will combine resources to achieve far-reaching, mutually agreed upon results. An award will be made to the alliance partner(s) demonstrating: (1) A clear developing country need. (2) Firm commitment of significant non-federal resources. (3) Co-operation of multiple partners with complementary contributions. (4) Measurable results. (5) Long-term sustainability.

### ***Global Genebank Trust***

The world's critical seed collections, a cornerstone of future food security, are at risk due to unstable and insufficient financing. By participating actively in the development of a Global Genebank Trust, USAID will be spearheading an innovative approach to ensure that plant genetic resources are available to scientists and researchers around the world in perpetuity. The trust will seek contributions from both public and private donors.

### ***Information Technology***

USAID's Leland Initiative in Information Technology (IT) has produced a number of small, but productive, alliances for addressing IT-related problems in Africa, such as anti-competitive policies and immature regulatory capacity, severe shortages of capable IT workers and limited infrastructure and obsolete equipment. Through these alliances, USAID has developed capabilities in counselling donor organisations, identifying collaborative partners and validating beneficiary institutions. Continuing with the experience of the Leland Initiative, USAID plans to expand these efforts and grant fund several new highly-leveraged small-scale IT alliances being identified through outreach activities targeting NGOs, IT companies and IT trade associations.

### ***Small Enterprise Development***

USAID will promote economic growth in two related areas. USAID is pursuing partnerships with public and private sector institutions to stimulate sustainable employment growth by developing small enterprises through the investment of equity and provision of technical assistance. In addition, to enhance the growth of and investment in such companies, USAID hopes to form an alliances with major United States accounting firms to certify local accountants trained in International Accounting Standards (IAS).

### ***Youth***

USAID will provide a grant to an NGO for a Youth Alliance that will provide information technology training for 12 000 young people in Latin America and the Caribbean with job placement targeted at 40% of training. This activity will be linked to another USAID-funded alliance with IYF – the Balkan Youth Alliance – as two pieces of a Global Youth Alliance.

## ANNEX III

## THE 1998 DAC PEER REVIEW AND UNITED STATES ACHIEVEMENTS

<b>Key issues</b>	<b>Concerns expressed in 1998</b>	<b>Progress achieved</b>
<b>Strategic framework</b>	Congress continues to shift strategic directions and to control details to a degree unknown in other donor countries.	Attempts to reduce Congressional micro-management have not succeeded to date.
<b>National consensus</b>	There is not a national consensus for aid. USAID has worked with Congress and attempted to educate the public. There is a need for fresh and effective ways of educating Congress and the public on foreign assistance and humanitarian programmes.	Congress remains sceptical on the need for foreign aid. American public awareness is still low.
<b>International aid co-ordination</b>	Relative shrinking of USAID resources further reinforces the need of USAID to work in concert with its development partners.	Need for further attention to international co-ordination is needed, both at level of headquarters and field.
<b>Reduced staff size</b>	Recent, large cutbacks of work force, both in Washington and overseas, has diminished the ability of USAID to function in the field.	Staff reductions have stopped, but attention is now needed to rebuild internal USAID abilities.
<b>Effectiveness, evaluation and results-oriented aid</b>	Use of indicators for New Management System (NMS) not at a fully functional level in 1998. Once fully installed, NMS should enhance USAID's ability to manage, analyse and report on its performance.	Results indicators have continued to evolve, but do not yet effectively "tell the story".
<b>Policy coherence and internal co-ordination</b>	The introduction of strategic planning by all departments and agencies may improve coherence, too soon to evaluate in 1998. Bilateral and multilateral funding is poorly co-ordinated.	Policy coherence and internal co-ordination are still treated in an <i>ad hoc</i> manner. Bilateral and multilateral USG funds are still managed separately.
<b>Volume of aid</b>	There is insufficient political support to arrest the declining levels of American aid. High level of political leadership needed to bring United States foreign aid to level commensurate with United States capabilities.	If approved in 2002, the MCA is expected to increase the volume of United States foreign aid by 50% per year.
<b>Arrears in funding international institutions</b>	In 1998, there was discussion of needed reforms of international development institutions, including the United Nations and the international financial institutions. However, USG is still in arrears with all of these institutions.	United States is now repaying its arrears.
<b>USAID use of contractors and grantees</b>	The challenge of relying on outside organisations to develop and implement while maintaining focus of USAID strategy.	Current system seems to keep external contractors and grantees in line with USAID strategy.



## ANNEX IV

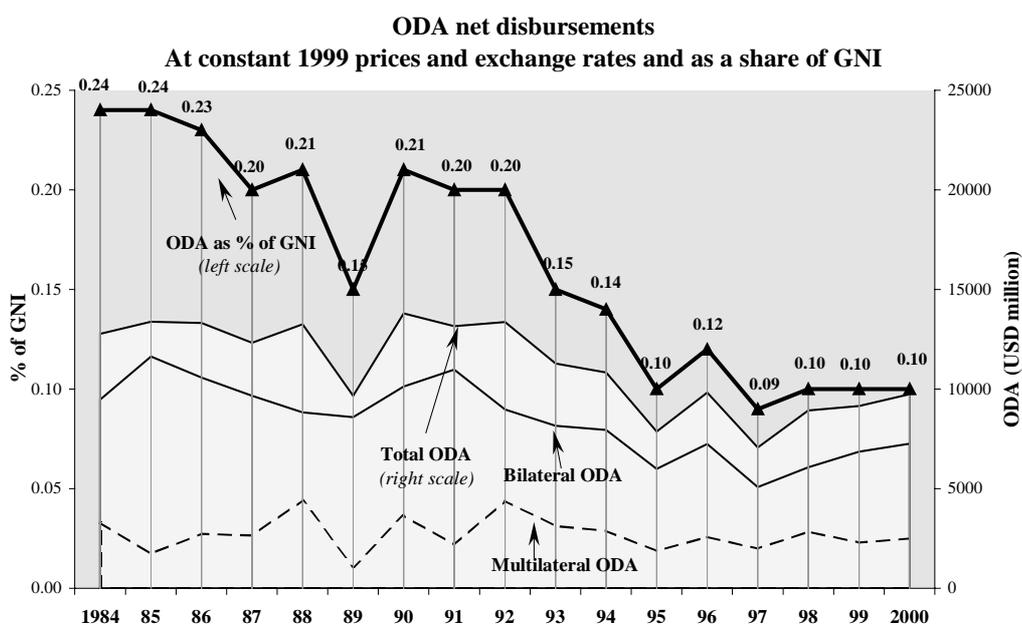
## OECD/DAC STANDARD SUITE OF TABLES

Table IV-1. Total financial flows

USD million at current prices and exchange rates

United States	Net disbursements						
	1984-85	1989-90	1996	1997	1998	1999	2000
<b>Total official flows</b>	<b>9 658</b>	<b>9 647</b>	<b>12 168</b>	<b>9 688</b>	<b>12 109</b>	<b>17 363</b>	<b>13 848</b>
Official development assistance	9 057	9 536	9 377	6 878	8 786	9 145	9 955
Bilateral	7 320	7 597	6 917	4 939	5 988	6 848	7 405
Multilateral	1 738	1 939	2 460	1 939	2 798	2 297	2 550
Official aid	n.a.	169	1 695	2 516	2 726	3 521	2 506
Bilateral		169	1 613	2 516	2 714	3 443	2 461
Multilateral		-	82	-	12	78	45
Other official flows	601	- 58	1 096	294	597	4697	1387
Bilateral	601	- 58	1 096	294	597	4697	1387
Multilateral	-	-	-	-	-	-	-
<b>Grants by NGOs</b>	<b>1 489</b>	<b>2 191</b>	<b>2 804</b>	<b>3 565</b>	<b>4 344</b>	<b>6 102</b>	<b>6 431</b>
<b>Private flows at market terms</b>	<b>4 055</b>	<b>2 490</b>	<b>45 665</b>	<b>80 048</b>	<b>46 521</b>	<b>48 439</b>	<b>27 681</b>
Bilateral: of which	3 674	2 180	46 662	83 816	46 111	50 295	28 046
Direct investment	2 675	7 437	25 821	41 314	31 714	38 417	34 557
Export credits	551	1 263	791	3 363	2 354	2556	3 710
Multilateral	381	310	- 997	-3 768	410	-1 856	- 365
<b>Total flows</b>	<b>15 201</b>	<b>14 327</b>	<b>60 637</b>	<b>93 301</b>	<b>62 974</b>	<b>71 904</b>	<b>47 960</b>
<i>for reference:</i>							
ODA (at constant 1999 \$ million)	13 073	11 729	9 825	7 069	8 918	9 145	9 756
ODA (as a % of GNI)	0.24	0.18	0.12	0.09	0.10	0.10	0.10
Total flows (as a % of GNI) (a)	0.40	0.26	0.73	0.93	0.55	0.54	0.25

a. To countries eligible for ODA.



Source : OECD.

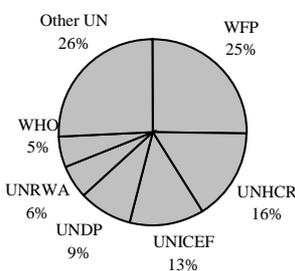
Table IV-2. ODA by main categories

United States	Constant 1999 USD million					Per cent share of gross disbursements					Total DAC 2000%
	1996	1997	1998	1999	2000	1996	1997	1998	1999	2000	
	<b>Gross Bilateral ODA</b>	<b>8 244</b>	<b>6 245</b>	<b>6 868</b>	<b>7 749</b>	<b>8 132</b>	<b>76</b>	<b>76</b>	<b>71</b>	<b>77</b>	
<i>Grants</i>	<i>8 075</i>	<i>5 802</i>	<i>6 684</i>	<i>7 638</i>	<i>7 931</i>	<i>75</i>	<i>70</i>	<i>69</i>	<i>76</i>	<i>75</i>	<i>55</i>
Project and programme aid	3 399	1 059	1 168	603	943	31	13	12	6	9	13
Technical co-operation	2 920	2 817	3 328	3 877	4 229	27	34	34	39	40	21
Developmental food aid	440	738	576	799	895	4	9	6	8	8	2
Emergency and distress relief	613	349	911	1 603	1 142	6	4	9	16	11	6
Action relating to debt	-	180	39	68	20	-	2	0	1	0	4
Administrative costs	703	659	662	688	701	6	8	7	7	7	5
Other grants	-	-	-	-	-	-	-	-	-	-	4
<i>Non-grant bilateral ODA</i>	<i>169</i>	<i>443</i>	<i>184</i>	<i>111</i>	<i>201</i>	<i>2</i>	<i>5</i>	<i>2</i>	<i>1</i>	<i>2</i>	<i>15</i>
New development lending	9	7	2	-1	-	0	0	0	-0	-	14
Debt rescheduling	-	279	9	4	103	-	3	0	0	1	0
Food aid loans	159	157	172	109	98	1	2	2	1	1	1
<b>Gross Multilateral ODA</b>	<b>2 594</b>	<b>2 010</b>	<b>2 857</b>	<b>2 310</b>	<b>2 514</b>	<b>24</b>	<b>24</b>	<b>29</b>	<b>23</b>	<b>24</b>	<b>30</b>
UN agencies	953	1 020	1 156	594	1 217	9	12	12	6	11	9
EC	-	-	-	-	-	-	-	-	-	-	9
World Bank group	845	719	1 050	800	760	8	9	11	8	7	6
Regional development banks (a)	456	-	346	448	258	4	-	4	4	2	4
Other multilateral	341	271	304	468	279	3	3	3	5	3	3
<b>Total gross ODA</b>	<b>10 838</b>	<b>8 255</b>	<b>9 724</b>	<b>10 060</b>	<b>10 645</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Repayments and debt cancellation</b>	<b>-1 013</b>	<b>-1 186</b>	<b>- 806</b>	<b>- 914</b>	<b>- 890</b>						
<b>Total net ODA</b>	<b>9 825</b>	<b>7 069</b>	<b>8 918</b>	<b>9 145</b>	<b>9 756</b>						
<i>For reference:</i>											
<i>ODA to and channelled through NGOs</i>	-	-	-	-	-						
<i>Associated financing (b)</i>	-	-	-	-	-						

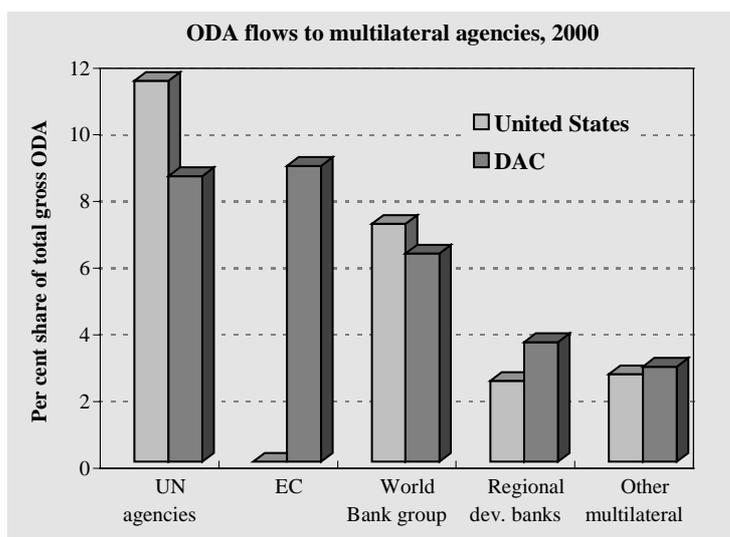
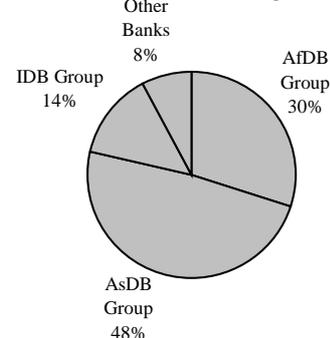
a Excluding EBRD.

b. ODA grants and loans in associated financing packages.

Contributions to UN Agencies  
(1999-2000 Average)



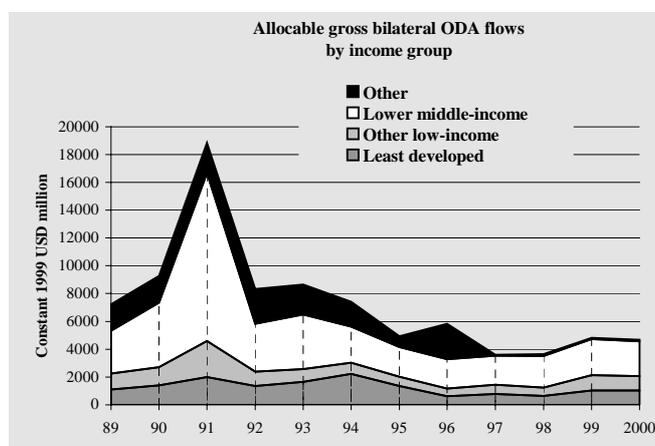
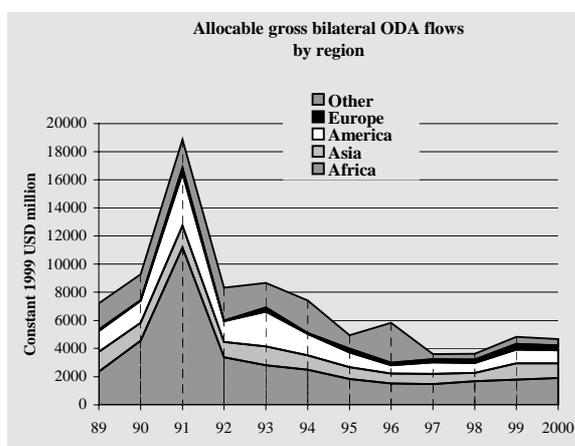
Contributions to Regional Development  
Banks (1999-2000 Average)



Source : OECD.

Table IV-3. Bilateral ODA allocable by regions and income group

United States	Constant 1999 USD million					Per cent share					Total DAC 2000%
	1996	1997	1998	1999	2000	1996	1997	1998	1999	2000	
	<i>Gross disbursements</i>										
<b>Africa</b>	1 507	1 482	1 681	1 772	1 901	26	41	46	37	41	<b>36</b>
Sub-Saharan Africa	673	854	733	959	1 060	12	24	20	20	23	<b>29</b>
North Africa	834	628	948	814	840	14	17	26	17	18	<b>7</b>
<b>Asia</b>	698	706	588	1 176	1 047	12	20	16	24	22	<b>39</b>
South and Central Asia	537	408	390	635	711	9	11	11	13	15	<b>13</b>
Far East	161	298	197	541	336	3	8	5	11	7	<b>25</b>
<b>America</b>	600	830	701	972	932	10	23	19	20	20	<b>12</b>
North and Central America	349	365	359	463	484	6	10	10	10	10	<b>6</b>
South America	251	466	342	510	448	4	13	9	11	10	<b>7</b>
<b>Middle East</b>	2 611	230	240	316	332	45	6	7	7	7	<b>4</b>
<b>Oceania</b>	231	149	182	169	143	4	4	5	4	3	<b>2</b>
<b>Europe</b>	188	208	248	413	318	3	6	7	9	7	<b>7</b>
<b>Total bilateral allocable</b>	<b>5 834</b>	<b>3 605</b>	<b>3 640</b>	<b>4 819</b>	<b>4 672</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Least developed</b>	611	778	652	1 040	1 033	10	22	18	22	22	<b>26</b>
<b>Other low-income</b>	553	659	588	1 098	1 026	9	18	16	23	22	<b>33</b>
<b>Lower middle-income</b>	2 117	2 080	2 266	2 593	2 492	36	58	62	54	53	<b>35</b>
<b>Upper middle-income</b>	143	88	133	89	121	2	2	4	2	3	<b>6</b>
<b>High-income</b>	2	-	0	-	-	0	-	0	-	-	<b>0</b>
<b>More advanced developing countries</b>	2 409	-	-	0	-	41	-	-	0	-	<b>-</b>
<i>For reference:</i>											
<i>Total bilateral</i>	8 244	6 245	6 868	7 749	8 132	100	100	100	100	100	<b>100</b>
<i>of which: Unallocated</i>	2 410	2 640	3 228	2 930	3 460	29	42	47	38	43	<b>26</b>



Source : OECD.

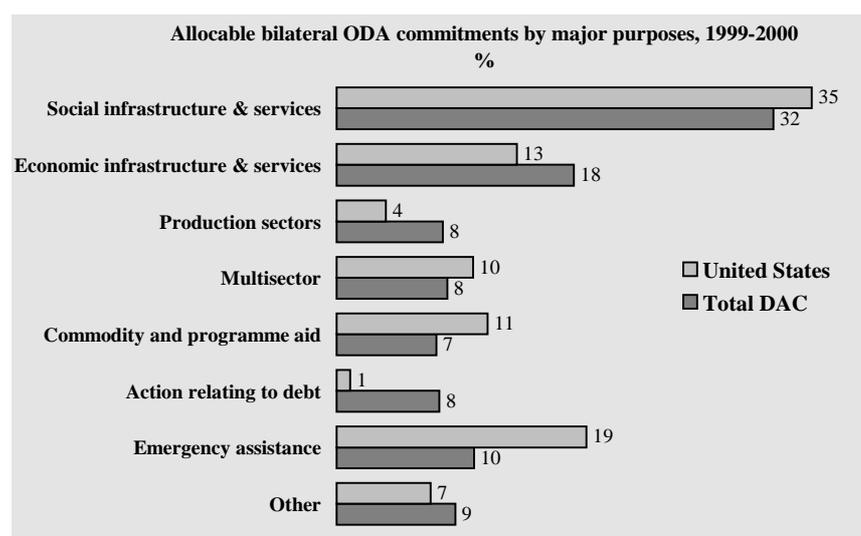
Table IV-4. Main recipients of bilateral ODA

United States	1989-90			1994-95			1999-2000				
	Current USD million	Constant 1999 USD mn.	Per cent share	Current USD million	Constant 1999 USD mn.	Per cent share	Current USD million	Constant 1999 USD mn.	Per cent share		
Egypt	1 723	2 110	26	Israel	822	892	14	Egypt	799	791	17
Israel	1 265	1 559	19	Egypt	683	738	12	Indonesia	194	192	4
Pakistan	291	360	4	Haiti	474	513	8	Jordan	179	177	4
El Salvador	283	350	4	Jordan	206	223	4	Colombia	169	167	4
Philippines	230	283	3	Somalia	202	220	4	Bosnia and Herzegovina	152	151	3
<b>Top 5 recipients</b>	<b>3 790</b>	<b>4 661</b>	<b>57</b>	<b>Top 5 recipients</b>	<b>2 386</b>	<b>2 585</b>	<b>42</b>	<b>Top 5 recipients</b>	<b>1 493</b>	<b>1 479</b>	<b>31</b>
Honduras	162	198	2	Palau	162	175	3	India	148	146	3
Bangladesh	160	197	2	Rwanda	148	160	3	Peru	136	135	3
India	131	163	2	Philippines	143	154	3	Bangladesh	110	109	2
Sudan	127	156	2	India	142	153	2	Bolivia	106	105	2
Costa Rica	124	154	2	Bolivia	137	148	2	Ethiopia	104	102	2
<b>Top 10 recipients</b>	<b>4 493</b>	<b>5 529</b>	<b>67</b>	<b>Top 10 recipients</b>	<b>3 117</b>	<b>3 375</b>	<b>55</b>	<b>Top 10 recipients</b>	<b>2 096</b>	<b>2 076</b>	<b>44</b>
Guatemala	121	149	2	El Salvador	136	146	2	Honduras	98	97	2
Jamaica	107	132	2	Iraq	123	132	2	Philippines	96	95	2
Northern Marianas ILS.	104	130	2	Bangladesh	112	121	2	South Africa	95	94	2
Kenya	101	124	2	Peru	107	116	2	Mozambique	93	92	2
Indonesia	99	122	1	Ethiopia	96	104	2	Haiti	92	91	2
<b>Top 15 recipients</b>	<b>5 025</b>	<b>6 186</b>	<b>75</b>	<b>Top 15 recipients</b>	<b>3 690</b>	<b>3 995</b>	<b>65</b>	<b>Top 15 recipients</b>	<b>2 570</b>	<b>2 545</b>	<b>54</b>
Morocco	82	102	1	South Africa	89	104	2	Micronesia,Fed. States	90	89	2
Bolivia	82	101	1	Mozambique	85	96	1	Pakistan	87	86	2
Sri Lanka	69	85	1	Turkey	83	91	1	Armenia	75	74	2
Jordan	68	84	1	Armenia	73	89	1	Guatemala	75	74	2
Peru	68	84	1	Micronesia,Fed. States	68	79	1	Korea, Dem. Rep.	74	74	2
<b>Top 20 recipients</b>	<b>5 393</b>	<b>6 640</b>	<b>81</b>	<b>Top 20 recipients</b>	<b>4 087</b>	<b>4 453</b>	<b>72</b>	<b>Top 20 recipients</b>	<b>2 971</b>	<b>2 942</b>	<b>62</b>
<b>Total (96 recipients)</b>	<b>6 697</b>	<b>8 245</b>	<b>100</b>	<b>Total (119 recipients)</b>	<b>5 707</b>	<b>6 174</b>	<b>100</b>	<b>Total (135 recipients)</b>	<b>4 793</b>	<b>4 746</b>	<b>100</b>
Unallocated	1 843	2 279		Unallocated	1 868	2 015		Unallocated	3 230	3 195	
<b>Total bilateral gross</b>	<b>8 540</b>	<b>10 524</b>		<b>Total bilateral gross</b>	<b>7 574</b>	<b>8 189</b>		<b>Total bilateral gross</b>	<b>8 024</b>	<b>7 941</b>	

Source: OECD.

Table IV-5. **Bilateral ODA by major purposes**  
at current prices and exchange rates

United States	<i>Commitments, two-year averages</i>						
	1989-90		1994-95		1999-2000		Total DAC per cent
	USD million	Per cent	USD million	Per cent	USD million	Per cent	
<b>Social infrastructure &amp; services</b>	<b>2 134</b>	<b>15</b>	<b>2 420</b>	<b>37</b>	<b>3 546</b>	<b>35</b>	<b>32</b>
Education	453	3	370	6	292	3	10
of which: basic education	-	-	71	1	155	2	1
Health	440	3	536	8	392	4	4
of which: basic health	-	-	205	3	331	3	2
Population programmes	249	2	505	8	651	6	2
Water supply & sanitation	301	2	76	1	164	2	6
Government & civil society	461	3	430	7	602	6	5
Other social infrastructure & services	230	2	503	8	1 445	14	6
<b>Economic infrastructure &amp; services</b>	<b>468</b>	<b>3</b>	<b>1 033</b>	<b>16</b>	<b>1 344</b>	<b>13</b>	<b>18</b>
Transport & storage	156	1	24	0	12	0	9
Communications	16	0	77	1	10	0	1
Energy	296	2	210	3	100	1	4
Banking & financial services	-	-	74	1	1	0	1
Business & other services	1	0	649	10	1 221	12	3
<b>Production sectors</b>	<b>1 024</b>	<b>7</b>	<b>982</b>	<b>15</b>	<b>368</b>	<b>4</b>	<b>8</b>
Agriculture, forestry & fishing	561	4	455	7	320	3	6
Industry, mining & construction	58	0	24	0	47	0	2
Trade & tourism	405	3	503	8	0	0	0
Other	-	-	-	-	-	-	0
<b>Multisector</b>	<b>44</b>	<b>0</b>	<b>67</b>	<b>1</b>	<b>1 017</b>	<b>10</b>	<b>8</b>
<b>Commodity and programme aid</b>	<b>3 481</b>	<b>25</b>	<b>980</b>	<b>15</b>	<b>1 127</b>	<b>11</b>	<b>7</b>
<b>Action relating to debt</b>	<b>6 093</b>	<b>44</b>	-	-	<b>102</b>	<b>1</b>	<b>8</b>
<b>Emergency assistance</b>	<b>144</b>	<b>1</b>	<b>463</b>	<b>7</b>	<b>1 864</b>	<b>19</b>	<b>10</b>
<b>Administrative costs of donors</b>	<b>568</b>	<b>4</b>	<b>525</b>	<b>8</b>	<b>702</b>	<b>7</b>	<b>6</b>
<b>Core support to NGOs</b>	-	-	-	-	-	-	<b>2</b>
<b>Total bilateral allocable</b>	<b>13 956</b>	<b>100</b>	<b>6 470</b>	<b>100</b>	<b>10 069</b>	<b>100</b>	<b>100</b>
<i>For reference:</i>							
<i>Total bilateral</i>	<i>14 158</i>	<i>88</i>	<i>7 801</i>	<i>78</i>	<i>10 085</i>	<i>80</i>	<i>73</i>
<i>  of which: Unallocated</i>	<i>203</i>	<i>1</i>	<i>1 331</i>	<i>13</i>	<i>16</i>	<i>0</i>	<i>4</i>
<i>Total multilateral</i>	<i>1 955</i>	<i>12</i>	<i>2 196</i>	<i>22</i>	<i>2 449</i>	<i>20</i>	<i>27</i>
<b>Total ODA</b>	<b>16 114</b>	<b>100</b>	<b>9 996</b>	<b>100</b>	<b>12 534</b>	<b>100</b>	<b>100</b>



Source : OECD.

Table IV-6. Comparative aid performance

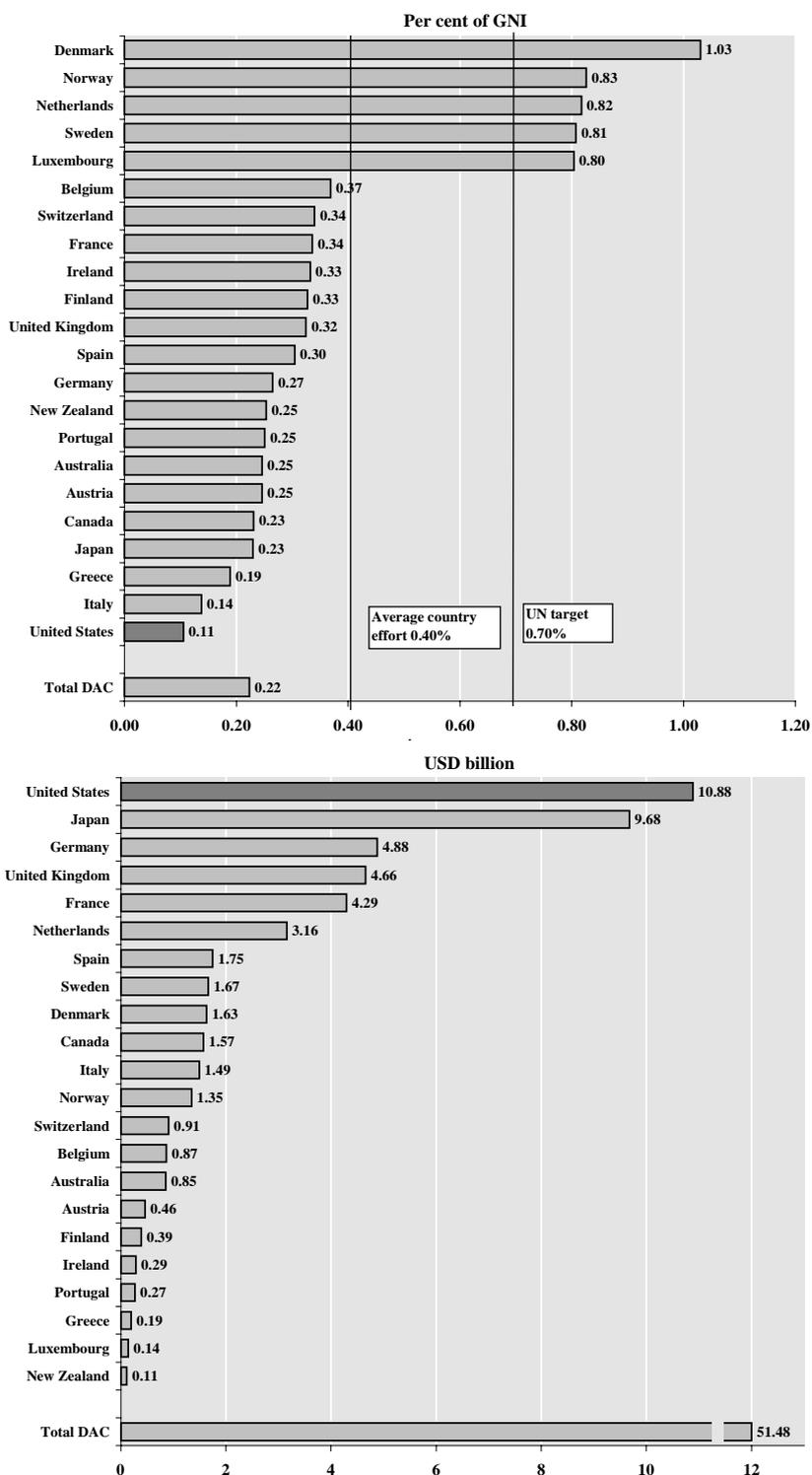
	Official development assistance			Grant element of ODA (commitments) 2000 % ( a )	Share of multilateral aid				ODA to LDCs Bilateral and through multilateral agencies 2000		Official aid	
	2000		94-95 to 99-00 Ave. annual % change in real terms		2000		2000		2000		2000	
	USD million	% of GNI			% of ODA ( b )	% of GNI ( c )	% of ODA ( b )	% of GNI ( c )	% of ODA	% of GNI	USD million	% of GNI
Australia	987	0.27	-0.7	100.0	23.2	0.06			21.1	0.06	8	0.00
Austria	423	0.23	-4.1	96.1	39.3	18.8	0.09	0.04	23.2	0.05	187	0.10
Belgium	820	0.36	2.0	99.4	41.8	18.5	0.15	0.07	25.0	0.09	74	0.03
Canada	1 744	0.25	-4.1	100.0	33.5		0.09		16.8	0.04	165	0.02
Denmark	1 664	1.06	4.3	100.0	38.5	32.9	0.41	0.35	32.1	0.34	189	0.12
Finland	371	0.31	6.1	100.0	41.5	27.8	0.13	0.09	29.0	0.09	58	0.05
France	4 105	0.32	-7.3	96.4	31.1	11.8	0.10	0.04	24.0	0.08	1 657	0.13
Germany	5 030	0.27	-1.9	97.9	46.6	21.9	0.13	0.06	23.3	0.06	647	0.03
Greece	226	0.20	..	..	56.2	13.0	0.11	0.03	7.8	0.02	12	0.01
Ireland	235	0.30	13.2	100.0	34.1	14.2	0.10	0.04	47.7	0.14	-	-
Italy	1 376	0.13	-5.5	98.5	72.6	26.3	0.09	0.03	26.7	0.03	406	0.04
Japan	13 508	0.28	3.9	87.6	27.7		0.08		15.2	0.04	- 54	0.00
Luxembourg	127	0.71	18.1	100.0	26.2	14.5	0.19	0.10	32.2	0.23	2	0.01
Netherlands	3 135	0.84	5.5	100.0	28.5	21.0	0.24	0.18	24.9	0.21	306	0.08
New Zealand	113	0.25	4.9	100.0	25.0		0.06		24.1	0.06	0	0.00
Norway	1 264	0.80	2.1	99.9	26.1		0.21		33.2	0.27	27	0.02
Portugal	271	0.26	0.9	99.1	34.0	12.0	0.09	0.03	43.2	0.11	27	0.03
Spain	1 195	0.22	1.5	92.2	39.7	10.2	0.09	0.02	11.5	0.02	12	0.00
Sweden	1 799	0.80	1.3	99.5	31.0	26.4	0.25	0.21	29.1	0.23	122	0.05
Switzerland	890	0.34	2.1	100.0	29.5		0.10		29.7	0.10	58	0.02
United Kingdom	4 501	0.32	1.5	100.0	39.8	18.1	0.13	0.06	30.9	0.10	439	0.03
<b>United States</b>	<b>9 955</b>	<b>0.10</b>	<b>0.2</b>	<b>99.7</b>	<b>25.6</b>		<b>0.03</b>		<b>19.5</b>	<b>0.02</b>	<b>2 506</b>	<b>0.03</b>
<b>Total DAC</b>	<b>53 737</b>	<b>0.22</b>	<b>0.4</b>	<b>95.9</b>	<b>32.9</b>	<b>23.7</b>	<b>0.07</b>	<b>0.05</b>	<b>22.0</b>	<b>0.05</b>	<b>6 848</b>	<b>0.03</b>
Memo: Average country effort		0.39										

Notes:

- a. Excluding debt reorganisation.
- b. Including European Community.
- c. Excluding European Community.
- .. Data not available.

Source : OECD.

Figure IV-1. Net ODA from DAC countries in 2001 (Preliminary data)



Source : OECD.



## ANNEX V

### THE FOREIGN AID BUDGET PROCESS

The Federal Budget process has four parts: **formulation** (development of the budget request), **legislation** (the role played by Congress), **execution** (the period when agencies actually spend money) and **audit** (an accounting of how money was spent). An explanation of the first three budget phases follows.

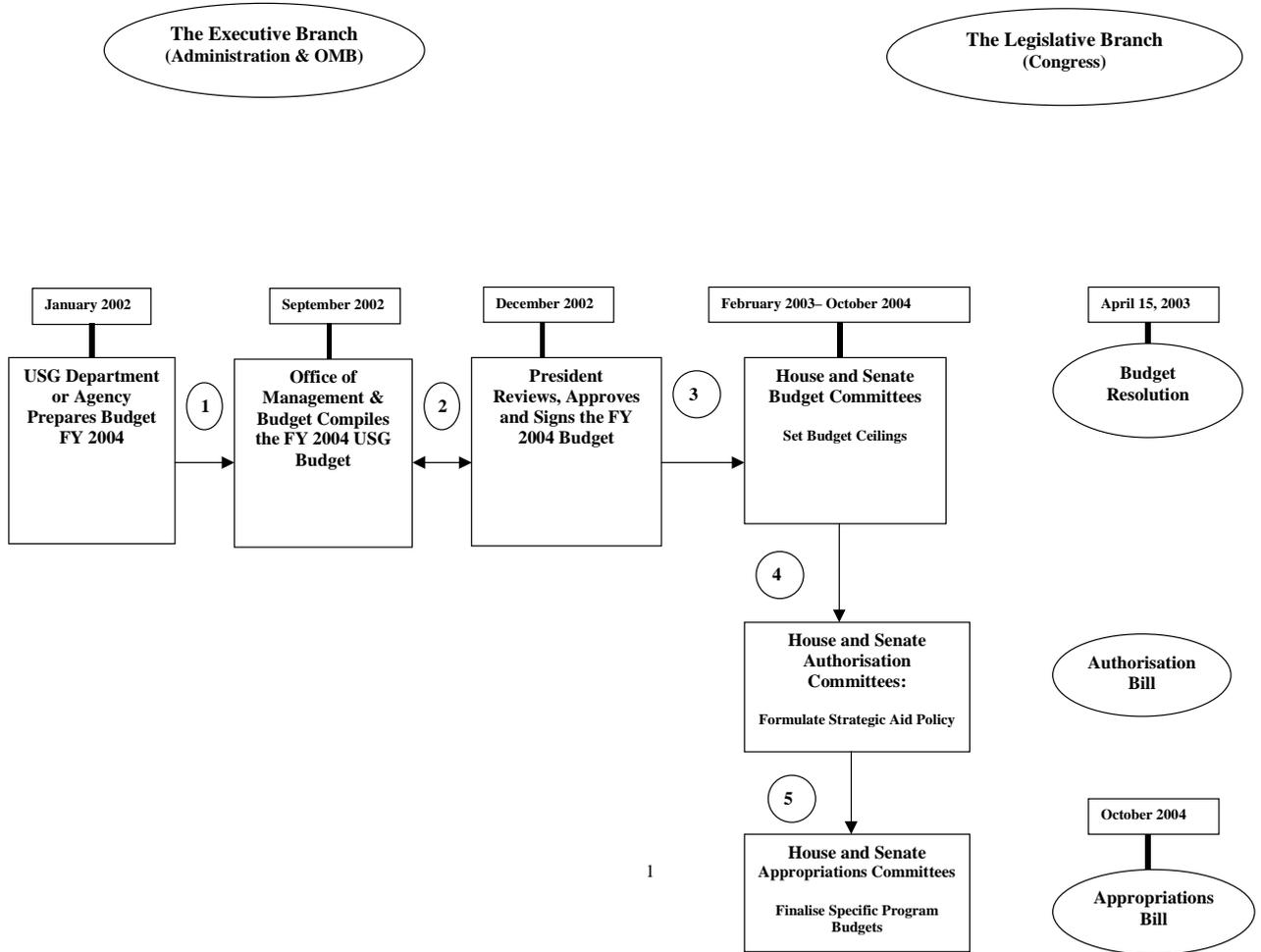
**Formulation:** Budget formulation starts in the spring, a full year and a half in advance of the start of the fiscal year. Agencies prepare and send their budget proposal to OMB by September of every year for the following fiscal year. OMB works to ensure the Federal Budget fits within the budget ceilings established by the budget committees, and at times works to limit growth of certain accounts, including the International Affairs Budget (150 Account). OMB makes recommendations to the President for approval. A back-and-forth dialogue process ensues and, once the President has made a final decision, he sends his entire budget proposal to Congress by February.

**Legislation:** By law, the President's Budget is submitted to Congress the first Monday in February. New proposals featured in the budget may be previewed in the State of the Union address in late January. Upon receipt of a budget proposal, the House and the Senate break it into separate sub-parts for a three-phase committee review. Six committees review the Function 150 Account. Review begins in the House and Senate **budget committees**, who determine the overall level of spending on foreign aid. Their respective budget resolutions are then forwarded to the **authorisation committees**, who re-authorise spending for each foreign aid programme and attempt to influence the policy and implementation dimensions of the funds. Finally, the **appropriations committees** produce the legislation that turns the new budget into law. Funding for the International Affairs Budget is actually a compilation of several appropriation bills: Commerce, Justice, State and Judiciary; Foreign Operations; and Agriculture. Food aid falls under the Agriculture Appropriations bills. Certain diplomatic, peacekeeping and United Nations contributions from the State Department are included in the Commerce, Justice and State Appropriations bill. The two houses then form a joint House-Senate committee and negotiate differences in their findings before making a joint final vote. The completed bill goes to the President for signature. International affairs bills are frequently at a lower funding level than the original request and include numerous **earmarks and directives** that reflect political priorities on aid. The battles between Congress and the Administration over foreign aid often occur over the appropriations bill in the early fall, only a month or two before the budget is to be passed. The Executive branch may send amendments to ask for additional appropriations throughout the year for unexpected events, such as a natural disaster or to cover shortfalls that arise during the course of the fiscal year.

**Execution:** Agencies can begin to spend money at the start of the fiscal year if appropriations are signed into law and OMB has "apportioned" some or all of the budget authority to the agency. The accompanying chart includes major stages of the United States federal budget process.

Chart V-1. The foreign aid budget process

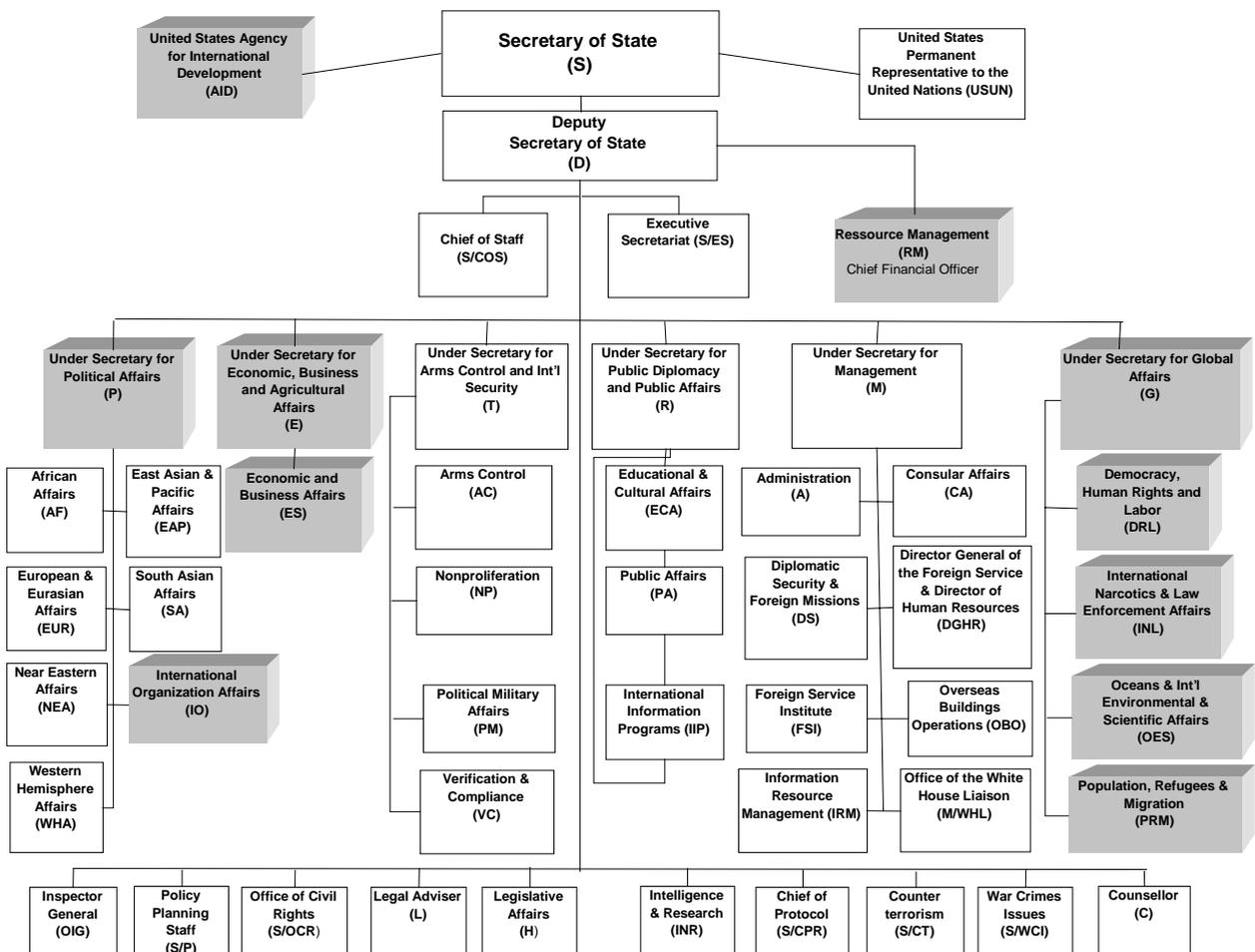
Example: Fiscal Year 2004



Source : OECD.

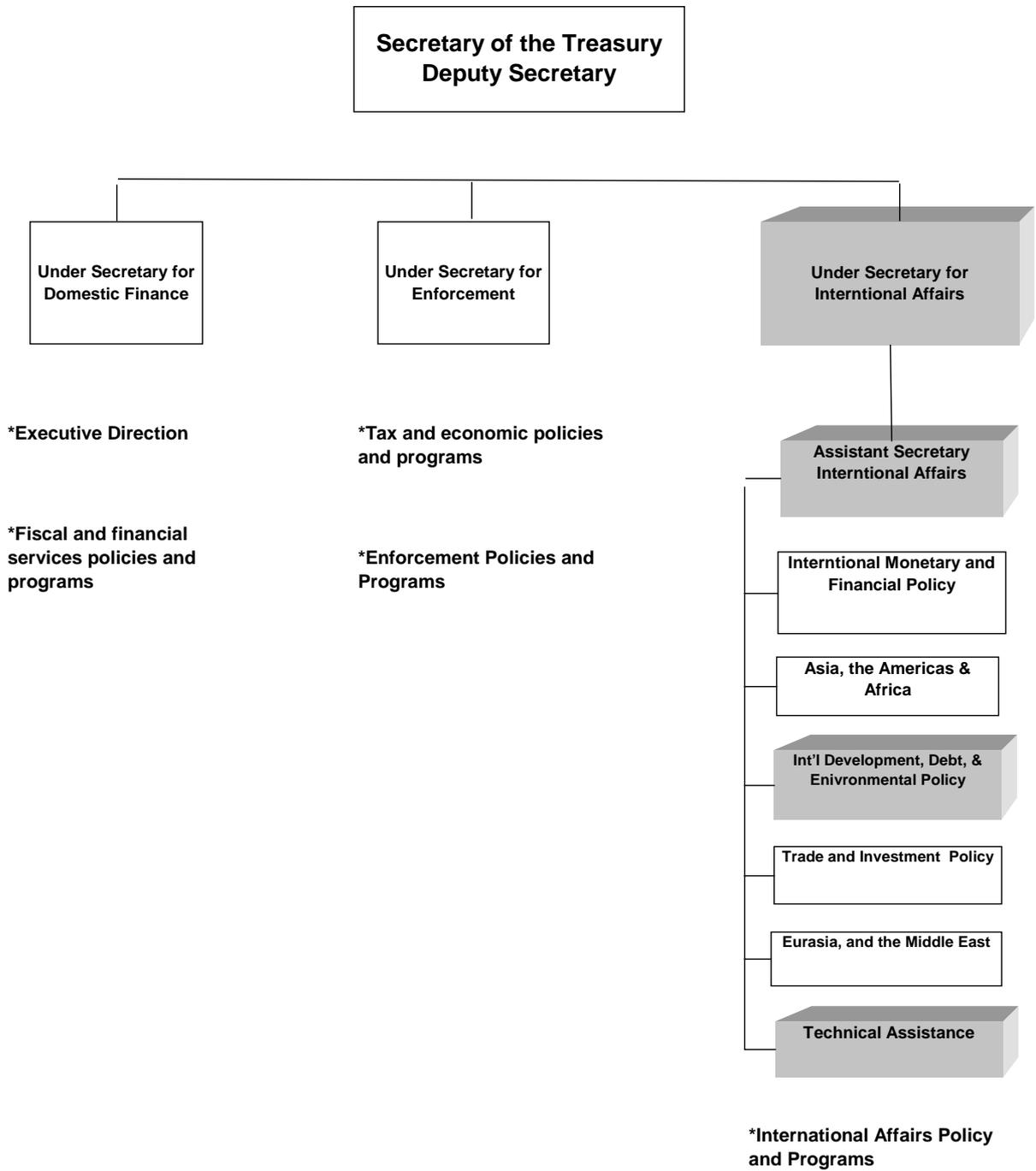
ANNEX VI  
ORGANISATIONAL CHARTS

Chart VI-1. United States Department of State



Source : United States Department of State.

Chart VI-2. United States Department of Treasury - Organisational structure



Source : Department of Treasury.

## ANNEX VII

### THE UNITED STATES' AID PROGRAMME IN UGANDA

#### **Introduction**

A field visit to Uganda was organised from 22-26 April 2002, in the context of the DAC Peer Review of the development co-operation of the United States. Examiners from France and Sweden and two members of the Secretariat conducted the visit. Numerous local personalities, including those in the Government of Uganda (GOU), local and American NGOs, informed citizens and other donors, were interviewed. The results of the review follow.

#### **The developmental context of Uganda**

Uganda achieved independence from the United Kingdom in 1962, but entered a period of protracted oppression and civil war. The 1990s ushered in a new era and the GOU promulgated a form of one-party democracy. Uganda is now making progress in many areas of governance and, although gains in democracy remain contested, current country leaders are elected through adult suffrage.

Uganda has substantial natural resources, including fertile soils, regular rainfall and sizeable mineral deposits of copper and cobalt. Agriculture is the most important sector of the economy, employing over 80% of the work force. Coffee is the major export crop and, despite efforts at diversification, still accounts for the bulk of export revenues. Although a landlocked economy, it has grown at an impressive average annual rate of 6.7% since 1992. Uganda has collaborated closely with the international community to effect substantial market and institutional reform in recent years. Ongoing involvement in the war in the Democratic Republic of the Congo, corruption within the government and slippage in government determination to press reforms, raise doubts about the continuation of strong growth.

Uganda is viewed by many as a poverty alleviation success story. Of its total population of some 23 million, the proportion of Ugandans living in absolute poverty is estimated to be 35%, down from 56% in 1992. Nevertheless, these gains remain fragile. In 2001, GDP growth dropped to 5.1%, annual government revenues stagnated at less than 12% of GDP, and the quality of education and health services sustained a measurable decrease. Over one-half of the population is under the age of 15 and is vulnerable to a renewed wave of HIV/AIDS infection.

What distinguishes the Ugandan economy from those of its neighbours, and what provides hope for developmental success, is the outstanding set of policies and programmes that have been put in place in the last five years and which are designed to sustain economic growth and alleviate poverty. These policies have emerged through a broad and credible consultative process involving all levels of society as well as the donor community. Uganda is recognised by many foreign donors as a progressive country and one in which donor/partner innovation is possible. Donors have bought into the Ugandan "Vision 2025" goal of eliminating mass poverty, as well as the 1997 PEAP that targets the reduction in

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the incidence of poverty to 10% by 2017. The PEAP proposes to address growth and poverty by: (i) creation of an enabling environment for rapid and sustainable economic growth and structural transformation; (ii) directly increase the ability of the poor to raise their incomes; (iii) directly increase the quality of life for the poor; and (iv) ensure good governance and security. As part of this programme, the government created a Poverty Action Fund (PAF) mechanism to programme the debt relief funds accruing to Uganda under the HIPC initiative. Expenditures from this Fund are targeted to education, health, water and sanitation, farm-to-market roads, agricultural extension and micro-finance.

### **United States presence and strategy for Uganda**

#### *The broader perspective of United States development co-operation*

The presence of USG development co-operation has broadly tracked the political development of Uganda since independence in 1962. American aid programmes were introduced in 1962, but funding levels and the USAID presence fluctuated with the pace of Ugandan political change over the ensuing 40 years. The USG operational presence in Uganda over this period has been very much oriented towards its development co-operation, and has been primarily built around USAID programmes.

Today, primary United States national interests in Uganda, as identified in its Mission Performance Plan, are humanitarian response, democracy, global issues of population, health and environment and economic growth. Uganda is a critical player in conflicts and tensions in the Great Lakes and Horn of Africa regions, and in USG efforts to address them. Uganda development and stability are linked to greater regional political stability and economic development, as well as East Africa's integration into the global marketplace. The United States recognises that Uganda's widely-followed social, political and economic transformation is far from complete, and will require sustained USG support and that of other donors to achieve. United States development co-operation crosscuts many of these broader United States national interests in Uganda. Development co-operation programmes collectively represent perhaps 95% of overall USG funding for Uganda, the large majority of which is managed by USAID.

A recently emerging influence on budget allocations has been noticed in the post-September 11 period. Increasing attention is now being paid to regions of the world other than Africa. Several stakeholders expressed the concern that this could lead to a decrease in USG development resources for Uganda.

#### *The USAID Integrated Strategic Plan*

In June 2000, USAID initiated a one-year process of local consultation, assessment and analysis that led to the generation of its Integrated Strategic Plan for the period 2002-2007. This consultative process included a wide range of stakeholders, including representatives from the GOU, Ugandan civil society, implementing partners, other donors and the USG. This consultation was considerably helped by the stakeholder consensus that the GOU, through its PEAP poverty strategy, had established an effective approach to sustainable growth and poverty alleviation. There was an equally strong consensus that weak governance and continued conflict constitute significant threats to achieving Uganda's growth and poverty alleviation objectives. The Integrated Strategic Plan was therefore crafted to directly support the Ugandan objective of reducing poverty to 10% or less by 2017, and is explicitly described in USAID documentation as "Assisting Uganda to Reduce Mass Poverty". The fact that this focus on poverty was not the normal agency strategic goal of sustainable development was a topic of discussion during the Washington approval process. Ultimately, Washington concluded

that such an explicit goal statement on poverty was not inconsistent with USAID's objectives and was given full approval and support.

The strategic linkages between the very broad vision for international affairs conceived by the State Department, and the parallel processes subsequently developed by USAID and the State Department, ultimately meet in the Uganda-based Mission Performance Plan and Integrated Strategic Plan analysis and documentation. The hierarchy of strategic, headquarters-to-field strategy development is known, but remains somewhat weak and theoretical when seen from the field perspective.

Overall financing for the six-year strategic time frame will depend on funding availability but, based on different USG funding category projections, is currently estimated at the following level:

- Development Assistance/Child Survival and Health: USD 322.8/ USD 281.4 million (high/low scenario)
- Food Assistance:<sup>32</sup> USD 173.9 / 155.9 million (high / low scenario)
- Other:<sup>33</sup> USD 30.8 million

Total estimate for the period: USD 527.5 / USD 468.1 million (close to USD 80 million/year)

More specifically, the Integrated Strategic Plan builds its portfolio of activities around three Strategic Objectives. They are:

- “Expanded Sustainable Economic Opportunities for Rural Sector Growth” (especially support for Ugandan private sector development, sustainable agriculture and Ugandan trade).
- “Improved Human Capacity” (especially basic education and basic health service delivery, including HIV/AIDS prevention, care and support).
- “More Effective and Participatory Governance” (especially support for Parliament and the nation-wide decentralisation process, plus attention to conflict areas).

Finally, the plan also targets conflict, gender, HIV/AIDS, information and communication technology, food security and regional trade as crosscutting issues. To ensure their integration into the broader portfolio, specific performance indicators reflecting these issues have been built into the three strategic objective areas.

Of this overall number, whether under high or low funding scenarios, roughly 1/3 will be attributed to the Strategic Objective on “Expanded Sustainable Growth Opportunities for Rural Sector Growth” and some 2/3 for that of “Improved Human Capacity”. This leaves a very small percentage (less than 5% under any scenario) for the Strategic Objective of “More Effective and Participatory Governance”.

### ***Choice of priorities for USAID assistance***

It is interesting to note that USG funding categories for economic growth (private sector, trade) and democratic governance are perceived by many (including the USAID mission) to be important areas of need and USG competence. These areas are viewed locally as less than optimally funded due to the

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32. Includes Title II monetised food aid (USD 53.4 million), Title II HIV/AIDS food aid (USD 30.5 million) and WFP food aid (USD 72.0-90.0 million).

33. Includes Displaced Children, CDC, REDSO, ESF and Victims of Torture.

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long standing practice of Congressional earmarking of funds (see below) and have not been priority areas for Congress in recent years. Funding earmarks for health (Population, Child Survival, HIV/AIDS, etc.) are large, because of high levels of political support for these categories, and are a major reason for the preponderance of portfolio funding in the “Improving Human Capacity” Strategic Objective. Interestingly, with strong GOU encouragement, many large local donors are now shaping their own programmes around budget support (see below), especially for the well-organised sector strategies in health, education and HIV/AIDS. Again due to Congressional interdiction on the use of budget support for health and other Administration concerns on the capacity of the GOU to manage these funds, USAID is restricted from participating in much of this innovation. One important, early observation of the Peer Review team concerns the “Washington-centric” programming bias of the USG system. The array of limitations imposed on local aid strategy and funding builds a framework of Washington-based priorities around which the USAID leadership in the field must navigate to shape its local programme in a manner compatible with the development realities of Uganda. The end result is perhaps not dramatic in the case of Uganda, but nevertheless discourages Ugandan ownership of USG programmes and requires the local mission to work in less than efficient ways to force a match between the two perspectives.

### **Organisation of United States development co-operation**

#### *Overall USG development co-operation organisation*

Particularly since 1999, Uganda has witnessed a considerable increase in the presence of independent USG agencies other than USAID that are involved in development co-operation. The current array of agencies in Uganda includes the Department of State, CDC, the National Institutes of Health, the Peace Corps and the Treasury Department, in addition to USAID. Some are large. CDC, who deals with issues of communicable disease (especially HIV/AIDS) research and treatment, now has an annual budget for its Uganda operations of USD 10 million and maintains a local office of 130 staff, including five United States direct hires. Peace Corps returned to Uganda in 2000 after evacuating its volunteers for two years during the recent terrorism alert. It has an annual operations budget of USD 600 000, not including the salaries of three United States direct hire supervisory staff, who have responsibility for a rapidly growing number (66 in 2002) of Peace Corps volunteers. The ambassador's purview encompasses all USG agencies in Uganda. She/he is ultimately in charge of the entire country programme and chairs the Country Team. Regular meetings and frequent consultation between the ambassador and agency heads and staff currently provide an appropriate level of strategic oversight while permitting considerable decentralisation of management responsibility for each agency at post.

#### *USAID organisation in Uganda*

USAID organisation in Uganda is shaped according to the long-standing USAID tradition of according priority to its field presence. The local USAID mission is well staffed under the leadership of an experienced USAID Mission Director. The Mission Director works directly in an operational sense with the USAID Africa Bureau in Washington and, as was noted earlier, reports to the ambassador, but is not supervised by him/her. According to the most recent USAID staffing pattern, the mission in Kampala employs 125 staff. This includes 11 United States direct hire officials<sup>34</sup>, 11 expatriate contract professionals, 21 local professionals, and 82 local support staff (largely located in the support-oriented Executive Office). USAID is housed in its own building outside the United States Embassy, although, due to greatly enhanced security considerations, especially since the

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34. Mission Director, Deputy Director, Contract Officer, Controller, Economic Growth leader, Private Enterprise Officer, Human Capacity leader, Health Officer, Program Officer, Economist and Executive Officer.

bombings of United States Embassies in Kenya and Tanzania, it may be required to move to a location within the brand new United States Embassy compound, if funding is located. The USAID mission currently carries an overhead cost of some USD 4.8 million per year, not including the salaries of its United States direct hire staff and some staff who are funded through programmes. Mission financial management specialists generally estimate total overhead normally to represent some 8% of annual programming levels.

### *Field presence vs. decentralisation*

USAID has long been proud of its organisational tradition of working with Washington in a “decentralised” manner and in Uganda has a fully operational staff to service its needs. The size of the USAID/Kampala mission compares favourably with similar, more recently decentralised large donors in Uganda (e.g. DFID or World Bank) and the quality of its staff appears high. It is important to stress that the term “decentralisation” should also imply a delegation of authority to make major strategic and programming decisions. In this sense, the Peer Review team finds that USAID/Kampala has an impressive staff capacity, but a less powerful ability to influence many key, pre-determining strategic and funding decisions. Flexibility is limited by Washington decisions on strategic priorities, which generally change with each new administration. Earmarks and directives limit considerably the funding from Congress and USAID or Presidential initiatives (95% of all funding in Uganda). Because many of the key funding and strategic decisions are pre-determined in Washington prior to the more specific portfolio shaping and implementation carried out in the field, the use of this powerful decentralisation approach is felt by the Peer Review team to be less than optimal.

### *Use of local staff*

Note was made of the extensive and very productive use of Ugandan professional staff within the operations of the USAID Mission. The Mission Director in fact described the local staff as “the backbone of the mission”. The use of this staff appears to have many advantages in terms of developing a well-informed and efficient USAID organisation. It seems probable that high-quality Ugandans can provide considerable insight on the best use of USAID funds in the economy. However, it is also important that USAID and other donors in the field reflect consciously on the potential for the negative impacts of this withdrawal of many of the “best and brightest” of local professionals from Uganda’s public and private sectors.

### *Organisational opportunities and challenges on the horizon*

The increased use of new **Information Technology** such as email, Intranet/Internet and VSAT satellite connections for phone and data linkages, permits USAID to carry on its overseas operations in an environment that is increasingly accessible to Washington and other partners. This trend can have important implications for the longer-term reduction in the cost of decentralisation. In this era of “smaller government” and shrinking operating expense budgets, this could become an important factor in the reshaping of overall organisation of USAID programmes. Easier communication is a central part of the increasing attention now being given to regrouping specialised staff (e.g. controller or contract specialised operations) in regional hubs and even in Washington.

The last several years have witnessed increasing levels of concern about **security considerations** in USG overseas operations, including those of USAID. The current world-wide trend is to co-locate USAID offices within the more secure compounds of the embassy (currently the plan for Kampala, as well). This is both a security advantage and a developmental disadvantage to USAID. A developmental agency like USAID vitally needs to be fed by regular contact with broader Ugandan

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society and the placing its offices within a heavily protected environment can contribute to isolating the agency from its local beneficiaries and counterparts.

### **Portfolio implementation**

#### *The current USAID approach to implementation*

USAID in Uganda, as is true elsewhere in the world, uses a Strategic Objective system for which mission teams, modalities and results measurement are oriented first and foremost to the achievement of a specific number of impact indicators at the end of the 5-7 year strategic cycle. Strategic Objectives are more specifically implemented by “activities” that are generally designed and approved by the local mission and that can mutate over their pre-determined activity cycles based on whatever is necessary to achieve the results expected within that activity subset. The activity concept is intended to be a more flexible and adaptable tool than traditional project management, and fits with the preferred USAID “hands-on” approach to using NGO grants and technical assistance contracts. The most recent USAID contract award report shows the mission currently using an array of 29 separate contracts or grants to implement almost USD 150 million of services.

The system tensions of earmarking become obvious at the activity management level. Congress micro-manages activities through the relatively complex Congressional Notification process and occasionally even places activities on hold or even cancels them, based on its own perceptions of appropriateness. What USAID can or cannot do also becomes obvious at the activity level, and helps feed the perception that USAID still uses an old-style, project-focussed system that is not driven by strategy.

Several examples of successful activities were identified in the context of this review, including those in education (policy reform, teacher training), HIV/AIDS (NGO leadership in treatment, research), agriculture (resuscitation of cassava production, high value crop exports) and support for the private sector (micro-finance reform, trade). Of the activities reviewed by the Peer Review, they appeared strategic and well implemented. Implementation agents seemed well supervised and productive. Operations appeared tightly structured and performance based. USAID prefers implementation through contractors or NGOs, rather than government, an arrangement that better suits its performance based system of management.

#### *Procedure issues*

Two different implementation procedure issues were noted in the course of the visit to Uganda. (a) Numerous comments were received from USG-sponsored implementers and other partners concerning the statutory and administrative constraints represented by the “buy-American” policy of the USG. The Peer Review team was fully cognisant of the political importance of this issue for the United States Congress and the fact that United States procurement overseas must be compatible with overall federal requirements (Federal Acquisitions Act and standard grant regulations). Nevertheless, it is suggested that the USG review its policies on **procurement** so as to make it more compatible with the spirit of the recent OECD recommendations on untying. It is also worth noting that food aid, which represents almost one-third of overall USAID funding to Uganda, is tied. (b) Several large local donors are taking advantage of the receptive partnership environment of the PEAP to drive a broader donor change agenda, including the long-suggested **harmonisation of procedures** around pooled resources. Perhaps in part due to the very complex and specific nature of United States procedures, or to the fact that USAID is precluded from being a full partner in the budget support process around the PEAP, the USG appears to be limited in the extent to which it is able to participate, and certainly to lead, in this area of aid reform.

### ***Earmarking***

Special attention was drawn during this review to the specific practice and issue of Washington-based earmarking of funds around special sector, topical or geographic themes. Earmarks have long been a characteristic of the USG systems and a favourite tool of the United States Congress to ensure that attention is paid to their political perspective by implementers in distant developing countries. According to USAID/Uganda, some 95% of its current funding is earmarked in Washington. Earmarks can be “hard” (statutory earmarks assigned by Congress) or “soft” (agency targets or new initiatives from the President). This Peer Review believes it has identified a total of 13 separate hard earmarks<sup>35</sup> required of the Uganda USAID mission alone.

The logic of eliminating earmarks in today’s aid environment seems compelling and is consistent with best practice used in many other DAC members. Earmarks take away flexibility in **programming** and generate a highly complex sequence of sometimes overlapping **reporting** requirements. Earmarks add to the administrative burden of USAID administration, both in Washington and the field, and reduce the local aid that actually contributes to development objectives. This impacts on aid effectiveness. As noted previously, earmarks also result in less efficient programming behaviour by the USAID mission. This extra burden has a clear **cost** to the United States, as well as the recipient country, by raising transaction costs. The exact size of this cost would require special study. Finally, earmarks and their associated effects contribute to an erosion in staff **morale** and waste the productivity of Foreign Service officers and contractors alike.

The issue of earmarking is sufficiently important to merit a special appeal to the United States Congress for its repeal as a practice. A case should be made to Congress in favour of some acceptable form of *ex-post* reporting, instead of the micro-managed process of *ex-ante* actions now in use. This theme has been echoed at several points in the past, but never has the practice been so out of touch with development co-operation best practice as it is today.

### ***Sector approaches and budget support***

The Uganda PEAP is one of the world’s most mature country strategies, is now used for PRSP documentation, and is one that was designed to facilitate the “docking” of donor programmes into one coherent programming system. The PEAP has always advocated a **sector approach** to the organisation of its implementation nation-wide, and strongly advocates donor support of pooled arrangements **of budget support**. The PEAP has even gone so far in operationalising its vision as to produce a special volume on partnerships<sup>36</sup> in which these thoughts are clearly explained. At this time, some one-half of the overall funding for the PEAP is provided in the form of budget support. A visible group of donors have heavily oriented their use of this instrument, including the Netherlands (100%), the United Kingdom (75%), Ireland (70%) and the World Bank (40%). All donors appear to have bought into the sector approach as a simple, yet effective way of co-ordinating the implementation of all sector partners around a common operational framework and vision for the future. USAID participates at the level of sector co-ordination (health, education, HIV/AIDS, agriculture, micro-

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35. Basic Education, HIV/AIDS, Child Survival, Malaria, TB, Displaced Children and Orphans, War Victims and Victims of Torture, Orphans and Vulnerable Children, Biotechnology, Global Climate Change, Population, Micronutrients, Dairy Directive.
36. “Building Partnerships to Implement the PEAP”, Poverty Eradication Action Plan, Volume 3, December 2001.

finance) but is now prohibited by Congress from participating in budget support to the health sector<sup>37</sup>. USAID/Uganda has used budget support in the past and is just now closing down a non-project assistance activity in education policy reform that has successfully functioned in Uganda since 1993 (see Box VII-1).

Some key arguments that were heard for and against the use of budget support in Uganda.

For budget support:

- Encourages host country ownership.
- Permits donors to become intimately engaged in host country policy dialogue at a high level.
- Simple to implement (but requires considerable analytical talent to track).
- Fosters donor co-ordination, reduces transaction costs and allows for a global vision at the sector, instead of project level (this is also possible in a sector-wide approach that does not use budget support).
- Is easily turned off in case of difficulty.

Against budget support:

- Requires new procedures to track use of funds (fungible).
- Makes donor proportionately responsible for some or all budget actions of government, depending on the nature of budget support.
- Is a fragile instrument. If turned off, can hurt the poor just to punish inappropriate government behaviour.
- Is difficult to apply in a corrupt environment.

Most informed observers in Uganda concluded that it was best to maintain a mix of funding instruments, assuming that the aid (project or non-project) is co-ordinated around a common vision. Based on its discussion with local development partners, the Peer Review supports this approach in Uganda, and suggests that USAID should at least have the option of using budget support as one of several tools to mission programming around the realities of today's Uganda.

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37. According to Ugandan sources, this is currently a statutory restriction for "Child Survival" and "Health Programmes" funds only. Although application of such restrictions fluctuates and is subject to Committee negotiation.

### Box VII-1. USAID/Uganda success story in education

During the 1990s, several African countries implemented major reforms in their primary education programmes and policies and Uganda is consistently rated as one of the most successful. USAID/Uganda contributed significantly to this reform through its Support to Ugandan Primary Education Reform (SUPER) programme, comprised of both policy dialogue and technical assistance components and largely funded with non-project assistance. Over the ten-year period from 1992 to 2002, USAID contributed USD 76 million to this effort.

USAID's policy dialogue agenda has been recognised as a major factor in the shape and speed of GOU reforms – leveraging increased budget support to the sector and providing significant improvements to teacher salaries and conditions of employment. Budget transparency was also enhanced in this manner and today over 90% of schools publicly display grant budgets and have some discretion over the expenditure of funds. This transparency and accountability has also drawn increasing parental involvement in their children's schools. On the technical assistance side, in-service, refresher or management training has been offered to over 150 000 teachers, inspectors and school heads.

Uganda's success in primary education reform can be attributed to a number of crucial factors, including political commitment, strong technical leadership, budgetary support and donor collaboration. USAID provision of non-project assistance was directly supportive of each of these factors.

### Co-ordination with partners

#### *A system of extensive donor-Ugandan consultation*

The local donor community frequently refers to Uganda as the “darling of development aid”. Uganda receives some USD 800 million of development assistance every year, representing 14% of GDP and more than one-half of the national budget. Given the receptive environment and the excellent quality of GOU-donor dialogue, perhaps as many as 25 international donors maintain a presence in Uganda. While amount varied according to source, it appears that among the largest donors are found the World Bank, the United Kingdom, the European Community, the United States, Denmark and the Netherlands. It is currently estimated that USAID is the fourth largest donor in Uganda and the second largest among the bilaterals. With so many actors and so much investment at stake, co-ordination among partners is imperative in Uganda, and a network of over 20 active co-ordination groups has been put in place over the years.

The GOU pioneered in inviting donors, NGOs and private sector groups that shared a common vision or a common interest in a specific topic to co-ordinate their efforts. As was noted previously, co-ordination is frequently structured around sector themes, often around topics of the PEAP or the Consultative Group, and most use a system of rotating chairmanship so that no one donor plays too dominant a role. Co-ordination has become so pervasive, in fact, that a small group of partners is now reassessing the overall co-ordination system, with an eye to reducing the numbers of meetings, where possible, and encouraging better meeting management throughout.

### ***The USAID approach***

USAID/Uganda has made an effort to capitalise on the special opportunity for partnership that is afforded by the PEAP. It has deliberately forged a strategic and operational link between its programme and the PEAP and has used this framework to actively co-ordinate on a number of groups. The Peer Review identified 14 separate co-ordinating groups on which USAID participates, occasionally very actively. In the case of the Education Funding Agencies Group, the Permanent Secretary of Education complimented USAID for its lead role in bringing all donors to work together. Qualifying USAID as “a true partner”, he explained that under the USAID tenure as chair of the group, it was decided to prepare Joint Position Papers which were thought through ahead of time. This innovation has avoided the previous unpleasant public confrontation of actors and extensive waste of the time of participants. USAID has also played an important role in focusing attention on poverty and inequity in the North of Uganda by creating and chairing a “Donors Co-ordination Group for the North”. On the other hand, some key partners seemed curiously uninformed of the USG role in Uganda. The review team were unable to determine if this perception was at the level of personalities or perhaps imbedded in some other aspect of USG operational behaviour.

### ***The special issue of USG country team co-ordination***

The co-ordination of USG actors operating in Uganda is a topic of possible controversy for the future. Since 1999, Uganda has witnessed a considerable increase in the presence of independent USG agencies other than USAID (especially CDC, Treasury and Peace Corps) that are involved in development co-operation. At least in the case of USAID and CDC, this seems to offer opportunity for independent, less than fully co-ordinated behaviour in specific sub-sectors. Because of the growing interest of USG agencies to more actively engage in overseas operations, and because of current proposals for larger USG aid funding on the horizon, the USG may soon need to evaluate the most appropriate approach to co-ordination of its overall development co-operation in the field. Because experience has shown that sustainable aid requires an understanding of many issues, it is recommended that this implementation co-ordination be preferably guided by the core experience of USAID.

## **Monitoring and evaluation**

### ***The current system of monitoring and evaluation***

USAID and other USG agencies have had to design and implement extensive monitoring and evaluation systems since the passage of the GPRA in 1993. Since 1995, “managing for results” has been a USAID “core value” and a central feature of each of its development objectives, activities, grants and contracts. Although these practices were widely used well before 1993, the GPRA instilled a more stringent and consistent approach, agency-wide, to results-based management. The agency has codified its monitoring and evaluation requirements in the Automated Directives System (ADS) 200 Series. This elaborate system of measurement and reporting was used by field posts to report to Washington in the context of its “R4” (Results Reporting and Resource Request) annual reporting system, which was abandoned in 2001, in favour of a simpler, “yes-no” Annual Report system.

### ***The USAID/Uganda monitoring and evaluation system***

USAID/Uganda has devoted substantial resources, perhaps 3-5% of its annual programme funds, to issues of monitoring and evaluation. Until 2002, it was recognised by the Africa Bureau as one of the leaders among USAID missions in Africa using this system. Mission specialists were critical of this (first) year Annual Report, which they found to be redundant and not particularly useful. The Peer

Review believes that there is a need to re-examine this new system, which does not appear to reflect what is happening in Uganda and, viewed from Uganda, does not seem to tell the USAID story to Congress nor the American public. On the other hand, the existing Performance Management System reflects a serious professional effort to measure development impact in the field. In Uganda, the mission has made a laudable effort to adapt this system to the needs of the Uganda PEAP. It will be important to consciously re-examine how the old and new reporting systems are to be used in the future.

Since the advent of the Strategic Objective programming system, with its built-in indicators of performance and performance reporting system, **evaluations** have not been widely used in USAID/Uganda. Evaluations are no longer mandatory and management needs in the USAID mission tend to be determined at the activity level. Eight activity evaluations took place in Uganda over the last year, either done directly by USAID or collaboratively with an implementation partner. All reports, as completed, are forwarded to the Centre for Development Information and Evaluation (CDIE), the USAID evaluation office located in Washington. The Peer Review suggests that USAID review the use of evaluations in the future as a potentially important element of the agency's avowed desire to track lessons learned and to work toward the ideal of becoming a learning organisation. Evaluation could be more effectively used to improve management and to provide strategic reporting to Congress and the American public.

An important next step for Uganda and the agency is to find better ways of integrating USG monitoring and evaluation requirements into that of all partners. USAID/Uganda has made a major step in aligning many of its indicators and measurements with those of the Uganda PEAP. Consistent with the OECD/DAC Evaluation Principles, it is recommended further that any re-examination of the current monitoring and evaluation system take into consideration the possibility of allowing field posts such as Uganda the freedom to set up its results-based system around that of all other donors and the PEAP.

## **Main findings and recommendations**

### ***Overview***

The team was favourably impressed generally by the local USG aid organisation in Uganda. At the broadest level of organisation, the USG "Country Team" concept seems to adequately ensure broad USG co-ordination, while not unduly interfering with the decentralised mandates of the various USG agencies at post. Development co-operation appears to be ably implemented by a large and well-staffed USAID mission. The portfolio of activities seen by the team (especially private sector development, HIV/AIDS, education and conflict) appeared relevant and well implemented. Activities are carried out within the spirit of Ugandan capacity building and are structured towards obtaining results. Recommendations for change noted below essentially deal with broader USAID system issues not within the control of the USAID/Uganda mission.

### ***A major lost opportunity***

The current USG programming practices of heavy earmarking of aid funds, the associated reporting requirements, and limitations in using alternative approaches such as budget support do not permit USG institutions such as USAID to take full advantage of its considerable local capacity. Appropriate changes in Washington policies in these areas would permit greater Ugandan ownership, enhance USG efficiency and impact, improve job satisfaction among official staff and enhance both USG leadership and image among its partners. It is recommended that USAID, or the Congress, request the GAO or other appropriate senior agency to undertake a special study of this lost opportunity, and,

particularly, its cost to the United States. Due to the particular receptivity of the GOU to donor proposals for innovative developmental partnership, it should be possible to test subsequently the recommendations of this special study in a Uganda pilot, if deemed appropriate.

Other negative spin-offs of this Washington-centric programming bias are noted below.

- **Field presence vs. decentralisation:** USAID has long considered that its large field presence has been one of its primary strengths, and USAID/Uganda is an example of this. Yet, due to the USG programming practices noted above, the potential strengths of decentralisation appear under utilised and more costly than necessary, since the strategic and operational decisions that shape the contours of the local programme are first made in Washington and often at the political level.
- **Country ownership:** The Ugandan approach to poverty planning (PEAP) appears to be a remarkable example of host country strategic ownership of the programmes embraced and funded by the many donors in country, including USAID/Uganda. This strategy and the operational approaches used to implement it, represent a clear invitation by the Ugandan government to policy dialogue with all partners. Several large donors have seized upon this invitation to creatively work within the framework of the PEAP to drive a broader donor change process experiment (*e.g.* use of co-ordinated budget support, rethinking the use of technical assistance, harmonisation of procedures, common reporting, etc.). It is unfortunate that the Washington-centric predisposition noted above appear to be limiting USG participation and leadership in this testing of aid reform opportunities, and potentially even serve as conceptual barriers to the fostering of strong local ownership and optimally effective policy dialogue. This then puts the onus of responsibility on the local USAID mission to creatively overcome these constraints through independent USG action, sometimes perceived by local partners as an approach that is not in the spirit of local partnership.
- **USG country strategies:** Both at the level of the Country Team and at the level of USAID, considerable investment has been made in developing a mature strategy for local action, reflective of the realities of Uganda. But, given more freedom to choose, and particularly given the funding restrictions inherent in the Washington-mandated earmarks, a greater strategic emphasis would have been placed on both private-sector led economic growth and issues of good governance. Similarly, the optimal USG approach to poverty reduction (the USAID avowed strategic goal) appears constrained by the fact that that poverty reduction is not an explicitly mandated United States strategic objective. This establishes a strategic bias in United States development co-operation that has reduced USAID/Uganda's freedom to programme in optimally efficient ways.
- **Untying:** Numerous comments were received from USG-sponsored implementers and other partners concerning the statutory and administrative constraints, and associated costs, represented by the "Buy-America" policy of the USG. Fully cognisant of the political importance of this issue for the United States Congress, it is suggested nevertheless that the USG review its policies on procurement so as to make it more compatible with the recent OECD recommendation for untying. It was noted that food aid, for which tying is still an acceptable policy, represents almost 1/3 of all USAID funds for Uganda.

***Measuring success***

Despite the considerable emphasis that is given to results management within the USG system, several system comments are noted. (a) There is a need to re-examine the newly-instituted USAID “Annual Report” system, which currently does not reflect what is happening in Uganda and, viewed from Uganda, doesn’t seem to tell the USAID story to Congress nor the American public. (b) The existing Performance Management System reflects a serious professional effort to measure development impact in the field. In Uganda, the mission has made a laudable effort to adapt this system to the needs of the Uganda PEAP. It will be important to consciously re-examine how the old and new reporting systems are to be used in the future. (c) The use of evaluations in the future needs to be re-examined if USAID is to work toward the ideal of becoming a learning organisation. Evaluation could be more effectively used to improve management and to provide strategic reporting to Congress and the American public. Generally, the entire system should move away from *ex-ante* concepts toward greater use of *ex-post* reporting.

***Co-ordination among USG development institutions***

Since 1999, Uganda has witnessed a considerable increase in the presence of independent USG agencies other than USAID that are involved in development co-operation. This could increase further in the context of the proposals for larger USG aid funding now on the horizon. Because sustainable aid requires an understanding of many issues, the USG may soon need to evaluate the most appropriate approach to co-ordination of its overall development co-operation in the field, preferably guided by the core experience of USAID.

***Staffing***

Note was made of the extensive and productive use of Ugandan professional staff within the operations of the USAID Mission. This appears to have many advantages in terms of developing a well-informed and efficient USAID organisation. It is plausible that this creative use of high-quality Ugandans more effectively leverages the generation of thousands of Ugandan jobs further in the economy. It is also important that USAID in Washington, and with other donors in the field, reflect consciously on the potential for all donors to collectively and permanently withdraw many of the “best and brightest” of local professionals from their country’s own public and private human resource capacity.

***Outdated financial management system***

Note was taken of the fact that the "MACS" reporting system has now been recognised as outdated and not able to provide appropriate financial information to Washington in a timely manner. A new system is now being tested in the field and will be rolled out at some point in 2003.



## **ANNEX VIII**

### **THE UNITED STATES' AID PROGRAMME IN GUATEMALA**

#### **Introduction**

As part of the preparations for the DAC Peer Review of the development co-operation policies and programmes of the United States, representatives of the examiners (France and Sweden) and the OECD Secretariat visited Guatemala from 20 to 24 May 2002. Meetings took place with Guatemalan officials, representatives of Guatemalan NGOs and civil society, USG departments and agencies, project managers and a selection of multilateral and other bilateral donors. Visits were made to a sample of USAID-supported activities in the department of Chimaltenango.

According to DAC statistics, USG departments and agencies disbursed USD 55 million of net ODA to Guatemala in 1999-2000 (annual average over two years)<sup>38</sup> making the United States the second largest donor after Japan (annual average of USD 67 million). Guatemala was the 22<sup>nd</sup> largest recipient of United States ODA in 1999-2000.

#### **Overview of the national context and main challenges for development**

Guatemala is the largest country in Central America, in terms of population (11.4 million in 2001) and economic activity. It is a post-conflict society, emerging from 36 years of internal conflict during which some 660 massacres took place, more than 200 000 people were killed or disappeared and a million people were internally or externally displaced. The rural indigenous poor were the most seriously affected by the internal conflict. Although generalised conflict no longer persists, some drivers of potential conflict remain, including ethnic exclusion, economic downturn and organised crime.

With a GNI per capita of USD 1 690 in 2000, Guatemala is classified a lower middle-income country. However, land and income distribution is highly skewed and profound ethnic and rural/urban inequalities exist. An estimated 60% of Guatemala's rapidly growing population live in poverty. Infant, child and maternal mortality rates are among the highest in Latin America. The country experiences high levels of chronic and acute child malnutrition. Adult literacy is estimated at 65%. Less than half of rural Guatemalans have access to running water, only 25% have access to electricity and less than 10% have access to modern sanitary facilities. The country ranked 120<sup>th</sup> out of the 173 countries included in the UNDP's Human Development Index for 2002, the second lowest ranking in Latin America (after Haiti).

The Peace Accords signed in 1996 by the government and rebel forces provide a framework for transforming Guatemala into a more participatory, pluralistic and equitable society and serve as a

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38. Overall United States foreign aid, of which ODA is one part, is calculated by United States sources to total USD 77 million over the same time frame.

reference point for co-ordinating development partners' activities. Full participation of indigenous people in local and national decision making is an important aspect of implementation of the accords, which call for major investments in health, education and other basic services to reach the rural indigenous poor. The accords also call for a profound restructuring of the State, including some fundamental institutions such as the military, the national police and the system of justice, in order to end impunity and confirm the rule of law.

Guatemala sustained serious damage in 1998 when Hurricane Mitch hit Central America. An estimated 268 people died and 106 600 were evacuated, out of a total of 750 000 people affected. Substantial damage also occurred to infrastructure, crops, housing, schools and health clinics. More recently, a creeping but devastating rural crisis, caused by a combination of drought, low coffee prices and global recession, has sharply reduced economic growth and the demand for rural labour.

Public expenditures in Guatemala show a low commitment to social sectors, rural development and the environment, despite entrenched poverty and the new rural crisis. But the government's ability to generate greater revenue for investment is limited by the wide income divide and narrow tax base, the absence of a modern and efficient tax collection system and the lack of a taxpaying culture. While substantial progress was made during the first two years of implementation of the Peace Accords (1997 and 1998), especially in the human rights area, progress subsequently slowed as some of the more difficult structural issues began to be addressed, such as tax reforms, land reform, civilian control of the military and recognition of the rights of indigenous people. Because 199 of the accord's 442 commitments were not fulfilled when the original deadline expired in December 2000, the implementation timetable for the accords was extended to 2004. In 2001, the government published a Poverty Reduction Strategy which aims to operationalise implementation of many remaining commitments. A large number of Guatemalans have, nevertheless, become disappointed with unfulfilled promises and are doubtful of their public institutions and political leaders' commitment and ability to carry out essential reforms in an efficient and transparent manner. There are also concerns that the accords place insufficient emphasis on economic growth and on delivering tangible benefits in the lives of people. The resulting lack of popular support for the Peace Accords that has emerged constitutes a serious challenge to democracy and the establishment of accountable institutions. This challenge is compounded by other factors including corruption, parallel forces linked to organised crime, human rights issues and land invasions.

### **Guatemala and the United States: The strategic context**

Guatemala's geographic proximity to the United States contributes to a complex, multifaceted and important bilateral relationship that touches on a range of United States national interests. Relations between the United States and Guatemala have traditionally been close, although at times strained by human rights and civil/military issues. The United States, as one of six members of "the Friends of Guatemala", played an important role in the United Nations-moderated Peace Accords process. The United States continues to play a leading role in dialogue with Guatemalan authorities aimed at influencing policies and promoting change through both bilateral channels, including meetings, negotiations, public statements and visits, as well as active participation in the "Dialogue Group" of ambassadors of Guatemala's eight largest bilateral donors.

The United States strongly supports the Peace Accords and believes the reforms they call for continue to offer Guatemala the surest road to social and economic progress and participatory democracy. The United States has more than met its four-year commitment of USD 260 million to support implementation. Including assistance for Hurricane Mitch recovery, the United States provided USD 350 million to Guatemala between 1997 and 2000 (of which USD 178 million was ODA). The United States' specific policy objectives in Guatemala include:

- Promoting the institutionalisation of democracy.
- Encouraging respect for human rights and the rule of law.
- Supporting broad-based economic growth and sustainable development and maintaining mutually beneficial trade and commercial relations.
- Addressing United States national security concerns by co-operating with Guatemala to combat narcotics trafficking, smuggling in persons and other transnational crime.
- Supporting Central American integration, including through support for resolution of border/territorial disputes (notably with Belize).

The United States is Guatemala's largest trading partner, providing recently around 40% of its imports and receiving 36% of its exports. President Bush's announcement in January 2002 of the high priority he attaches to negotiating a free-trade agreement with Central America is considered very important in Guatemala for its economic and social development and has promoted discussions among Central American countries about how best to prepare for a free-trade agreement. Guatemala already enjoys access to United States GSP benefits and the Caribbean Basin Trade Partnership Act. However, due to concerns in the United States about the protection of workers' rights in Guatemala, eligibility for these benefits was put under review in 2001. After passage of labour code reforms in May 2001 and the successful prosecution of labour rights violations against banana union workers, the review was lifted.

Remittances from Guatemalans in the United States are estimated at between USD 750 million and USD 1 billion a year. These collectively constitute the largest financial transfer Guatemala receives.

### **Channels for the United States' development co-operation to Guatemala**

The importance of the Guatemala/United States bilateral relationship leads to a large number of USG agencies being present in Guatemala, some with responsibility for maintaining bilateral relations with other Central American countries as well. Although USAID is by far the most significant channel for delivering United States development co-operation to Guatemala, many other agencies have also become involved, often by providing technical assistance. The following USG agencies are present in Guatemala and involved in delivering development co-operation:

- Department of State (especially the Political, Economic and Narcotics Affairs Sections of the embassy).
- USAID.
- Peace Corps.
- A Department of Defense Military Group.
- Department of Justice's Drug Enforcement Administration, its Immigration and Naturalisation Service and its International Criminal Investigative Training Assistance Programme.
- Department of Health and Human Services, including CDC.
- Department of Commerce's Foreign Commercial Service.
- Department of Agriculture's Foreign Agricultural Service and its Animal and Plant Health Inspection Service.

## *United States*

The American Ambassador, as the President's representative in Guatemala, has responsibilities for co-ordinating USG agencies in the field. The ambassador has found co-ordinating to be a challenge in the Guatemalan context because agencies were generally unaware of what other agencies were doing. The ambassador has consequently seized opportunities to bring agencies together, particularly in the context of the "country team", to focus on what the USG is trying to achieve in Guatemala. The preparation of annual Mission Performance Plans, a requirement for all United States missions since the mid-1990s, has proven to be such an opportunity and has helped bring separate agency objectives and activities closer together. The mission believes these efforts have enabled it to send a coherent message to all sectors of Guatemala about USG support for democracy, human rights and the peace process.

Within the development co-operation domain there are nevertheless opportunities for greater knowledge sharing as a basis for increasing complementary actions and synergies. This is particularly apparent in the security sector, where the Department of State, the Department of Justice, the Department of Defense and USAID are all actively involved in promoting democracy but work with different Guatemalan civil and military counterparts. USAID could play a pre-eminent role in co-ordinating activities under an overall strategic umbrella for development co-operation, as it did during the period after Hurricane Mitch hit the region.

### **USAID bilateral and regional programmes**

Funding from USAID represents around three-quarters of all USG funds provided to Guatemala. From the USAID mission in Guatemala, USAID manages both a bilateral programme for Guatemala as well as a Central America regional programme (covering Belize, Costa Rica, Guatemala, Honduras, Nicaragua, Panama and El Salvador).

#### ***USAID bilateral programme for Guatemala***

The current strategic plan for the USAID bilateral programme was first approved in 1997 with the aim of providing substantial support for implementation of the Peace Accords. Under the overall goal of "consolidate peace and reduce rural poverty", the strategic plan has one special objective and five strategic objectives that link to USAID's own agency goals and overall mission. The special objective, "support the implementation of the Peace Accords", originally focussed on demobilising ex-combatants, reintegrating refugees and stabilising societies in affected communities. It later expanded to focus on national reconciliation, human capacity development, expanded access to factors of production and reform of key State institutions. The plan's five strategic objectives are:

- More inclusive and responsive democracy.
- Better educated rural society.
- Better health for women and children.
- Increased rural household income and food security.
- Improved natural resource management and conservation of bio-diversity in priority areas.

In 1999, USAID initiated a two-year emergency reconstruction programme to respond to the damages caused by Hurricane Mitch and added a second special objective to the strategic plan, "rural economy recovers from Hurricane Mitch and is less vulnerable to disaster". In the same year, USAID extended the original five-year timeframe for the strategic plan and the peace special objective to 2003, so that it would coincide with Guatemala's re-calendarised Peace Accord targets and commitments.

During the first years of the bilateral programme's strategic plan, USAID provided nearly USD 70 million a year to Guatemala. Total funding fell to USD 53 million in FY 2001, composed of USD 24 million in Development Assistance and Child Survival and Health Funds, USD 14 million in ESF and USD 15 million in food aid. The bilateral programme has had a comparatively large degree of freedom in its actions due to the availability of substantial ESF monies, mostly to finance the broad range of development activities related to the special Peace Accords objective.<sup>39</sup>

### ***USAID regional programme for Central America***

The USAID regional programme seeks to foster democracy and environmentally sound economic development by assisting Central American countries to implement their 1994 Alliance for Sustainable Development (ALIDES) and the complementary Joint Central America/United States Agreement (CONCAUSA). This Agreement provided the overall framework for the USAID strategic plan for its Central American programme for 1997 to 2001. This strategy has now been renewed for the period 2002 to 2006. With the overarching goal of "sustainable regional development", the plan has four strategic objectives, all of which link to USAID agency goals and objectives:

- Increase Central American competitiveness in global markets.
- Improve environmental management in the Meso-American Biological Corridor.
- Enhance Central American capacity to respond to the HIV/AIDS crisis.
- Strengthen municipal finance systems for local governments in Central America.

Funding for USAID's regional programme totalled USD 12.7 million in FY 2001, composed of USD 9 million in Development Assistance and USD 3.7 million in Child Survival and Health Funds.

### ***Future directions for USAID programmes***

Both the size and shape of USAID's bilateral and regional programmes are changing. A new strategic plan is being developed for the bilateral programme for 2004 to 2008, to respond to the changed circumstances in Guatemala in a "post-peace" context. Staff and funding are expected to decline significantly. At the same time, the regional programme will receive extra funding from the new "Opportunity Alliance" launched by USAID to respond to the devastation caused in rural areas of Central America and Mexico by the coffee crisis, severe drought, natural disasters and the global economic downturn.

As part of the process of elaborating a new bilateral strategy, the USAID mission discussed social trends with a "Strategy Peer Group" of Guatemalan experts and analysts and took account of the Guatemalan government's new Poverty Reduction Strategy. In parallel, USAID headquarter and mission offices of democracy and governance carried out a Conflict Vulnerability Assessment. As it had pioneered with the 2002 to 2006 regional strategies, the mission then drafted a short Parameters Paper sketching out the main elements of a new strategic plan. While this plan is still being finalised,

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39. In FY 2001, 54% of Development Assistance, Child Survival and Health Funds and ESF allocated to the USAID bilateral programme were earmarked, a relatively small share. Funds totalling USD 20.9 million were earmarked as follows: USD 5.7 million for population; USD 3.9 million for child survival; USD 3.9 million for biodiversity; USD 2.5 million for basic education; USD 2.7 million for agriculture; USD 2.1 million for microenterprise; and USD 0.5 million for AIDS.

## *United States*

the Parameters Paper gives indications of likely future direction. Consistent with USAID's view that poverty reduction without growth is next to impossible, the paper proposes that USAID focuses geographically on poor and indigenous areas with economic growth potential. These areas roughly coincide with the municipalities targeted in the Guatemalan government's Poverty Reduction Strategy. With an overarching goal of "shared prosperity and capable governance", three strategic objectives are proposed for the new programme:

- Promote increased rural incomes, employment and food security through programmes that work to increase small producer productivity, increase rural investment and market access and support workforce development initiatives.
- Support measures that promote healthy citizens through a focus on reproductive health and child health, with a strong nutrition element including with food aid and immunisations, and prevention of HIV/AIDS.
- Foster good governance with the new administration that will take office following elections in 2003. USAID's programme should emphasise continued strengthening of justice systems and the rule of law, institutionalising checks and balances so as to fight corruption and helping develop effective local government.

While USAID's need to reduce formal primary education activities is an understandable response to fewer resources being available, USAID should monitor developments in this area to ensure that its withdrawal from a central area for Guatemala's development where USAID has been substantially and successfully engaged does not leave a vacuum that other donors do not adequately fill. A further and emerging issue for USAID is how it will respond to the challenges of managing a programme with less flexibility in the use of funds. This particularly applies in the key strategic area for the United States of increasing rural incomes and employment, which is principally financed with ESF.

The regional Opportunity Alliance is being jump-started with funding of USD 38.5 million in FY 2002 and FY 2003. Through support for trade capacity building, rural diversification and management of climatic and environmental risks, these funds should assist countries concerned realise opportunities for trade, investment and rural economic prosperity. The initiative will also be used to support Central American countries in preparing more effectively for trade negotiations. In Guatemala, the Opportunity Alliance should help create opportunities for agricultural diversification and off-farm employment by improving the quality of existing coffee producers, developing value-added services and products and helping those unable to compete in the new market for coffee to diversify.

As the USAID programmes evolve in Guatemala and the rest of Central America, it will be important to pursue complementarities, synergies and synchronisation between the regional Strategic Plan and the individual country strategies. The expected declining funding for the Guatemala programme and the increase in funding for the regional programme, coupled with the greater importance being placed on regional integration, make this all the more important.

### ***Management of the USAID programmes***

Under a common Mission Director, the USAID mission in Guatemala is organised functionally, with separate deputy directors for the bilateral and regional programmes who each oversee a set of teams formed to pursue individual strategic objectives. In addition, the mission is supported by a common Programme Development and Management Office. The mission has a total staff of 157, of which 19 are Americans on posting ("United States direct hires"), 11 are Americans on contract or inter-agency

agreements and 127 are mostly Guatemalan staff recruited locally, including some 30 professional-level specialists. As well as contributing knowledge of the Guatemalan context, locally recruited staff have a special place in the mission because they possess its "institutional memory" and provide continuity in activities. Locally engaged staff can occupy senior positions, including leading an individual strategic objective team. However, such use of experienced and competent Guatemalans ultimately deprives the partner country of valuable human resources. This practice should consequently be pursued with care and caution. USAID (like several other donors) should consider this issue more deeply, perhaps developing operational guidelines for its missions abroad.

Responsibility for implementing USAID activities has been progressively out-sourced to external consultancies or organisations. This tendency continues and some consultants who were formerly USAID employees affirm that administrative work previously performed "in house" by USAID staff are now being passed on to external contractors. This raises the issue of the appropriate role of contractors and whether they are the most cost-effective means of carrying out some tasks. There is also the potentially worrisome issue of loss of institutional memory, operational experience and in-house expertise within USAID to perform or assess the performance of core agency functions. Contractors do not lead on policy dialogue with the partner government although their responsibilities are increasingly bringing them close to needing to engage in such discussions. USAID will need to reflect on how it wants to participate in policy dialogue with partner governments in the future and whether this is an appropriate task for non-agency staff.

Bilateral donors as a whole do not consider that the pre-conditions are currently in place to enable them to provide budget support to Guatemala.<sup>40</sup> The United States' development co-operation programme consists mostly of technical assistance for capacity building delivered through American firms, but a large and possibly increasing share is also provided as food aid. NGOs implementing food aid programmes acknowledge that USAID manages its budget flexibly and can reach decisions comparatively rapidly. Nonetheless, these NGOs believe there are opportunities to improve substantially the efficiency and cost effectiveness of this form of development assistance. In addition, there are concerns by some Guatemalan authorities that United States food aid may be distorting local markets, particularly imports of corn, despite the strict "Bellmon" assessments the United States conducts to determine whether substantial disincentives to domestic production are likely to occur.

### **Selected other United States government channels**

#### ***Peace Corps***

Guatemala is one of the Peace Corps' oldest and largest country programmes. More than 4 000 Peace Corps volunteers have served in Guatemala since the first group arrived in 1963. Today, around 200 volunteers are assigned to the country each year, normally for a two-year assignment. Through people-to-people programmes with public and private institutions, volunteers aim to help rural Guatemalans to move from bare subsistence to small-scale commercial agriculture, to manage and conserve natural resources, to improve health and nutrition and to increase off-farm incomes.

Despite some overlaps in objectives, links between USAID and the Peace Corps have been weak but may expand in the future. The Peace Corps receives an annual grant of USD 75 000 from USAID which is used to fund micro projects proposed by volunteers linked to their assignments. The Peace

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40. However, the Inter-American Development Bank does provide budget support, helping to maintain Guatemala's social expenditure at about 5% of GDP as required by the SDR 84 million (around USD 105 million) International Monetary Fund Stand-by Credit approved in April 2002.

## *United States*

Corps experimented with implementing some USAID activities but found responding to reporting requirements and implementing cumbersome administrative procedures required the recruitment of extra staff to manage the agreement. The Peace Corps decided it did not wish to engage in the large expansion in overheads required to pursue and build on this experiment. On the other hand, USAID is starting a new "Youth at Risk" activity with a USD 1 million budget. As the Peace Corps is already active in addressing issues related to expanding opportunities for youths, for example in its Small Business Development Project, there may be scope to increase collaboration but on a different basis. The Peace Corps has already received a USD 25 000 grant from USAID for a youth at risk activity.

### *Military Group*

Activities by the United States Army's Military Group include on-going work to help professionalise Guatemala's armed forces as well as managing a Humanitarian Assistance Programme. The programme mobilises army personnel and equipment to respond to specific needs identified by Guatemalan counterparts, for example training in disaster preparedness, disease surveillance exercises and construction or renovation of small-scale infrastructure. The Military Group is also involved in providing donated surplus United States government equipment, such as medical equipment and school furniture. In addition, the United States Armed Forces conducts short and long-duration training exercises, to broaden the medical skills of military personnel and provide medical services to the local population. The Military Group only budgets the relatively small additional costs required for these various activities, which suggests that the full and potentially large costs of ODA-eligible activities by the American armed forces are not being fully captured in the United States ODA figures.

There appears to be opportunities to position the Military Group's activities more strategically within the United States' overall development co-operation to Guatemala, and to link these activities to Guatemalan development plans and programmes. For example, the Military Group and several other USG agencies are all working to improve governance in their own sphere but without an overall plan for how these different activities fit together and complement each other. Also, despite their small size, the destination, timing and nature of United States Army humanitarian training exercises should be well co-ordinated with other USG agencies active in the health sector, to maximise the impact of these missions from a Guatemalan perspective and ensure that follow up occurs to improve the sustainability of achievements made.

### **Monitoring, evaluation and results**

For each USAID strategic objective, intermediary results with indicators are determined and these form the basis of monitoring plans used to track progress made. A compilation of performance against these indicators is used to prepare an annual portfolio review for the mission, an important planning and management tool, while performance against a selection of externally auditable indicators is used to prepare an annual report which is sent to headquarters and ultimately submitted to Congress.

The USAID mission is no longer required to carry out mid-term and final evaluations but may undertake an evaluation when new activities or a new strategy is being developed or when there is a need to identify and document lessons learnt (an estimated 25% of activities are currently evaluated). While USAID in Washington no longer undertakes country evaluations, it does continue to commission evaluations in specific sectors. The GAO may conduct external programme audits, as it did in 2001 in an assessment of democracy in Guatemala.

In relation to accountability and results, USAID's goal is to select objectives that reach high and inspire others while also being within the agency's "manageable interests". The concept of manageable interest recognises that achievement of results requires joint action on the part of many other actors,

such as partner governments, institutions, other donors, civil society and the private sector. Appendix 1 lists some recent accomplishments identified by USAID within the manageable interests of its bilateral programme.

Overall, USAID appears more strongly focused on monitoring activities and expenditures than on evaluating impact and sharing lessons learnt. This reduces the potential for tracing and documenting the downstream results from USAID's activities and for providing feedback to the American public and Congress on USAID activities and successes. It is also not apparent that other USG agencies delivering ODA are required to monitor and evaluate their activities to the extent that USAID is. This is a source of concern, as some of these other agencies may be paying insufficient attention to sustainability and other dimensions of development, such as gender equality and environmental impact.

### **Key findings from the field visit to Guatemala**

**Policy coherence for development:** Three factors appear to provide the basis for Guatemala's economic and social development: i) further implementation of the Peace Accords; ii) promoting economic growth through expanding export opportunities; and iii) continuing economic and political co-operation and integration within Central America. The United States is clearly a valued, influential and important partner for Guatemala in these three domains, both through its development assistance as well as through its broader political and economic engagement. However, and despite prospects of negotiating a free-trade agreement, the recent manifestations of increasing protectionist tendencies in the United States have been a source of considerable concern in Guatemala because the United States' broader policies have a substantial impact on Guatemala's development prospects. At the same time, negotiating free-trade agreements can have a positive development outcome as it can lead to improvements in governance and environmental and labour conditions in partner countries. ODA can play an important complementary role by building trade capacity and strengthening institutions to address the potential threats from more open trade to protected or uncompetitive sectors of the Guatemalan economy.

**Poverty reduction and the new bilateral strategy:** While the Parameters Paper for the new USAID strategic plan for Guatemala provides a clear and useful enunciation of the mission's view of how to do development, some other issues arise. For example, in the shorter-term, what is USAID's vision for addressing the development needs in economically less well-endowed areas of the country? Do other donors accept the implicit division of labour, with USAID focussing on those areas most likely to develop in order to be able to demonstrate results? Will improving rural prosperity be enough to tackle other poverty-related issues, such as ethnic and rural/urban inequalities? Is the United States' strong focus on building capacity and providing food aid a sufficiently large range of instruments for sustainably reducing poverty? The new USAID strategic plan for Guatemala should consequently stress the continuing relevance for the United States of implementing the Peace Accords, despite the apparent fading of host country ownership of this vision for development, not just because the accords provide a useful docking for donors' activities but because it allows USAID to pursue important issues such as income distribution and trade expansion in the context of promoting economic growth. The bilateral strategy should also mention the difficult areas of land ownership and fiscal reform, so that USAID can move into these areas if necessary or appropriate during the term of the new strategy.

**Working with others:** USAID's engagement in co-ordination activities with other USG agencies should not be at the expense of closer co-ordination with other development partners in Guatemala. There is a risk with the new bilateral strategy that by moving away from Guatemala's vision for development, as set out in the Peace Accords, USG funds will be less well understood by and co-ordinated with those of other partners. USAID's new requirement to prepare a Conflict

Vulnerability Assessment when developing country strategies is a positive move, but such assessments should be shared and used jointly with others locally. There are also opportunities to use the assessment to foster discussion and dialogue on the important issues raised. Similarly, while the involvement of the "Strategy Peer Group" is welcome, their engagement could be more substantial through a full dialogue over the course of elaboration and implementation of the new strategy. Donors collectively could provide a valuable service to rural indigenous poor Guatemalans by monitoring and analysing the vitally needed structural changes required to foster a more stable, safe, participatory and just society in Guatemala. In particular, the "Dialogue Group" could link up more systematically with the international financial institutions, especially now that a new International Monetary Fund (IMF) package is being implemented.

**Improving efficiency and effectiveness:** While ESF monies can be implemented with relative flexibility, there appear to be opportunities to improve the efficiency and effectiveness of other forms of development assistance delivered by USAID. For example, NGOs and the mission agree the food aid programmes are overly complex, administratively cumbersome and subject to an excessive amount of small procedural changes. Also, efforts could be made to reduce the restrictions that require USAID staff to need to find creative ways of pursuing activities that are integral parts of achieving their strategic objectives, such as the restriction on USAID working directly with police forces, prison services and the military. Delivering development assistance through American firms means that a larger share of activities' budgets is spent funding overheads, rather than doing development. Finally, co-financing, rather than USAID's penchant for parallel financing, may provide opportunities for increasing partnership and enhancing implementation efficiency.

**USAID field presence:** The USAID mission has a large, experienced and dedicated staff and appears to perform well, despite the constraints placed on the agency's operations. The move by donors to promoting partnership and partner country ownership of the development processes is prompting many other aid agencies to consider greater decentralisation of decision-making authority and staff to the field. While USAID is comparatively well positioned because it already has a large field presence and a decentralised structure that enables it to work strongly to foster partnerships, there is an impression that USAID dedicates an excessive amount of staff time and resources to tracking, monitoring and reporting back to headquarters on the use of funds allocated. Using staff in country this way is a lost opportunity as these resources could be used to enhance the effectiveness and sustainability of United States development co-operation by complementing on-going efforts to promote partnership and partner country ownership.

## APPENDIX 1

### ACCOMPLISHMENTS OF THE USAID GUATEMALA PROGRAMME

#### *Support for the implementation of the Peace Accords*

- USAID’s timely support and leadership under the Peace Process helped Guatemala demobilise 3 000 ex-combatants and start engaging them in productive activities.
- The Historical Clarification Commission (HCC) concluded its work and issued its final 3 600 page report; and USAID designed and launched a programme to provide direct assistance to communities most affected by the violence and human rights violations.
- Over 769 predominantly Mayan students received university degrees in 2001 and another 1 427 persons continue in USAID-funded university degree programs. Over 390 bilingual education promoters have become certified as teachers.
- As of January 2002, 109 exhumations have been conducted and 4 843 human rights victims have been provided mental health services.
- The Land Fund and Land Resolution Commission expanded outreach, resolving 189 conflicts in 2001 and issuing an unprecedented number of titles to small landholders (7 773 titles).
- Four electronic business centres were opened in rural market towns to help develop commercial opportunities.

#### *More inclusive and responsive democracy*

- USAID’s “justice centre” concept, integrating key justice sector actors at the local level, has been adopted by the judicial sector and donors, and is expanding access to justice: by 2001, the number of operational justice centres totalled 11. Nine new community-level mediation centres were opened in 2001, bringing the total to 15.
- Training and assistance have been provided to over 110 public defenders, enabling the Public Defenders Office to provide services to over 20 000 poor Guatemalans nation-wide who otherwise would lack access to justice.
- USAID’s local governance activity has institutionalised mechanisms for citizen participation in decentralised decision making, expanding into 42 municipalities in three departments.

#### *Better educated rural society*

- Widened access to primary education in Quiché has brought near-full enrolments - since 1997, there has been a 45.5% average increase in gross enrolments for both girls and boys.
- Improved access and quality schooling are being provided to over 100 000 children in Quiché.
- Improved quality and efficiency have accompanied increased access, as the third grade completion rate for girls increased from 18.2% in 1997 to 29.9% in 2001.

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### ***Better health for women and children***

- New family planning users and “couple years of protection” against unwanted pregnancies saw record growth up to 2001, with the former up 257% from 1998, and the latter up 162%, from 376 197 in 1977 to 609 581 in 2000.
- In 2001, for the first time, the Guatemalan government made reproductive health a top priority, passing a law, launching a national Reproductive Health programme and strongly endorsing and inaugurating the Integrated Management of Childhood Illnesses programme, boldly rallying public support for both initiatives.

### ***Increased rural household income and food security***

- In two remote rural regions (Ixcán and Barillas), income generation activities since 1996 have had a dramatic effect on the local economy, creating vibrant economic centres with burgeoning microenterprise sectors.
- BANRURAL and NGO partners are assisting 55 489 small farmers and 49 889 microenterprises (54% woman-owned).
- New public and private investment in 11 rural market towns generated through USAID projects was USD 5.13 million.
- Food aid has enabled 65 383 families to increase incomes and improve child nutrition.

### ***Improved natural resources management and conservation of bio-diversity in priority areas***

- Community-based forestry management activities were implemented on 428 000 hectares; Guatemala is a world leader in the area of community-managed forests being certified.
- A new Ministry of Environment was formed, a significant step to promote a national environmental strategy in Guatemala.
- The first-ever fire strategy for the Petén brought together financial resources and planning to effectively co-ordinate fire-fighting efforts there.

### ***Rural economy recovers from Hurricane Mitch and is less vulnerable to disaster***

- CONRED, the national emergency co-ordination entity, established a national emergency response and early warning system.
- 147 community and municipal-level disaster preparedness committees were formed.
- USAID partners exceeded seven-fold their combined target for assisting small farmers (22 221 reached) to rehabilitate their lands and recover productivity on a sustainable basis.
- 13 bridges, 230 km of roads and 15 000 hectares of watershed land area rehabilitated.

## PRESS RELEASE OF THE DAC PEER REVIEW OF THE UNITED STATES

The United States regained its status in 2001 as the largest donor in the OECD's Development Assistance Committee (DAC) in terms of volume. Its net official development assistance (ODA) was USD 10.9 billion, about one-fifth of the DAC total. This represented 0.11% of its gross national income (GNI), leaving the United States with the lowest ODA/GNI ratio in the DAC. This does not include private grants which are estimated to significantly exceed ODA flows.

During this review of the development co-operation policies and programme of the United States, the DAC welcomed President Bush's proposal for a "Millennium Challenge Account" (MCA). This will contribute to global efforts to accelerate growth and reduce poverty in poor countries. The additional USD 5 billion in annual aid by 2006 will, if approved by Congress, consolidate America's position as the largest donor and slightly improve the country's ODA/GNI performance.

The important role the United States plays in development co-operation extends beyond its financial contribution. Its large economy and ability to influence world opinion offer the United States a unique opportunity to promote economic growth worldwide and reduce poverty in developing countries. The DAC encouraged the United States to capitalise on this to assume a leadership role in world development co-operation and to further enhance its own policy coherence for development.

The DAC Chairman, Mr. Jean-Claude Faure, summarised the committee's main recommendations to the United States:

- **Build a common development vision.** The responsibility for ODA is being handled by about 50 United States government entities. An overarching vision of US development co-operation is needed to manage such a diverse system although the new National Security Strategy represents movement in that direction. The United States Agency for International Development (USAID) is the primary aid agency, but is now responsible for just one-half of United States ODA (down from 64% in the 1998 Peer Review). There is a need for greater coherence between development and broader government policies (*e.g.* trade and agriculture). USAID could take on greater government-wide leadership in all areas of development co-operation, including the integration of development considerations in broader national policies.
- **Foster stronger international partnerships.** There is wide recognition that development assistance will only be effective if all development partners co-ordinate their efforts closely. The US has contributed to bringing about the Monterrey Consensus and the internationally agreed development goals of the UN Millennium Declaration. The Millennium Challenge Account should be an opportunity to cement international partnerships with a common goal of poverty reduction. The DAC encouraged the United States to work collaboratively with the committee on results-based approaches to poverty reduction and good governance, including the new approach to the MCA, to ensure that there is consistency between American aid criteria and those being used by other donors. The DAC further noted the United States support for the harmonisation of donor procedures and encouraged the United States to continue to support the HIPC initiative.

- **Enhance public understanding of the long-term nature of development issues.** The American public supports the concept of foreign aid, but has an inflated notion of the size of the United States' ODA effort. Allowing USAID to directly inform the public, combined with a cross-government information policy, would correct misperceptions and add to the growing public and political support for the important United States role in development co-operation.
- **Improve efficiency in aid delivery.** The DAC acknowledged the efforts being taken in USAID to enhance management credibility with Congress and the public by reforming its internal "business systems". The DAC encouraged USAID to pay special attention to pro-active human resource planning in order to redress the substantial loss of experienced staff over the last decade. A review of the longstanding practice by the Executive branch and Congress of making widespread use of "earmarks" to direct funding to predetermined areas such as child survival and microenterprise development could also reveal opportunities for reducing the extra costs and inefficiencies generated by this system. The DAC was supportive of US interest in a more systematic examination by the Committee of budget support, including the most effective circumstances for its use.
- **Increase aid volume.** In light of the massive challenge posed in achieving the development goals of the Millennium Declaration, implementing these recommendations will provide the United States with the scope for considering further increases in its official development assistance.
- **Further untie aid.** Tied aid generates American support for development assistance. Except for specific forms of aid to least developed countries, United States aid is generally tied to the procurement of goods and services purchased from the United States. The United States, far more than any other DAC member, sends food to developing countries. Transaction costs are expensive and can lead to inefficiencies in finding locally supported solutions in developing countries in non-emergency situations.

During the review on 22 October 2002, the United States delegation was led by Mr. Andrew Natsios, Administrator of the United States Agency for International Development. The examining countries were France and Sweden.

## DESCRIPTION OF KEY TERMS

*The following brief descriptions of the main development co-operation terms used in this publication are provided for general background information. Full definitions of these and other related terms can be found in the "Glossary of Key Terms and Concepts" published in the DAC's annual Development Co-operation Report.*

**ASSOCIATED FINANCING:** The combination of OFFICIAL DEVELOPMENT ASSISTANCE, whether GRANTS or LOANS, with any other funding to form finance packages.

**DAC (DEVELOPMENT ASSISTANCE COMMITTEE):** The committee of the OECD which deals with development co-operation matters. A description of its aims and a list of its Members are given at the front of this volume.

**DAC LIST OF AID RECIPIENTS:** A two-part List of Aid Recipients was introduced by the DAC with effect from 1 January 1994. Part I of the List is presented in the following categories (the word "countries" includes territories):

**LLDCs:** Least Developed Countries. Group established by the United Nations. To be classified as an LLDC, countries must fall below thresholds established for income, economic diversification and social development. The DAC list is updated immediately to reflect any change in the LLDC group.

**Other LICs:** Other Low-Income Countries. Includes all non-LLDC countries with per capita GNI less than USD 760 in 1998 (World Bank Atlas basis).

**LMICs:** Lower Middle-Income Countries, *i.e.* with GNI per capita (World Bank Atlas basis) between USD 761 and USD 3 030 in 1998. LLDCs which are also LMICs are only shown as LLDCs – not as LMICs.

**UMICs:** Upper Middle-Income Countries, *i.e.* with GNI per capita (World Bank Atlas basis) between USD 3 031 and USD 9 360 in 1998.

**HICs:** High-Income Countries, *i.e.* with GNI per capita (World Bank Atlas basis) more than USD 9 360 in 1998.

Part II of the List comprises "Countries in Transition". These comprise: i) more advanced Central and Eastern European Countries and New Independent States of the former Soviet Union; and ii) more advanced developing countries.

**DEBT REORGANISATION:** Any action officially agreed between creditor and debtor that alters the terms previously established for repayment. This may include forgiveness, rescheduling or refinancing.

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**DISBURSEMENT:** The release of funds to, or the purchase of goods or services for a recipient; by extension, the amount thus spent. They may be recorded **gross** (the total amount disbursed over a given accounting period) or **net** (less any repayments of LOAN principal during the same period).

**EXPORT CREDITS:** LOANS for the purpose of trade and which are not represented by a negotiable financial instrument. Frequently these LOANS bear interest at a rate subsidised by the government of the creditor country as a means of promoting exports.

**GRANTS:** Transfers made in cash, goods or services for which no repayment is required.

**GRANT ELEMENT:** Reflects the **financial terms** of a commitment: interest rate, maturity and grace period (*i.e.* the interval to the first repayment of principal). The grant element is nil for a LOAN carrying an interest rate of 10%; it is 100% for a GRANT; and it lies between these two limits for a LOAN at less than 10% interest.

**LOANS:** Transfers for which repayment is required. Data on **net loans** include deductions for repayments of principal (but not payment of interest) on earlier loans.

**OFFICIAL AID:** Flows which meet the conditions of eligibility for inclusion in OFFICIAL DEVELOPMENT ASSISTANCE, except that the recipients are on Part II of the DAC LIST OF AID RECIPIENTS.

**OFFICIAL DEVELOPMENT ASSISTANCE (ODA):** GRANTS or LOANS to countries and territories on Part I of the DAC LIST OF AID RECIPIENTS (developing countries) provided by the official sector with the promotion of economic development and welfare as the main objective and which are at concessional financial terms (if a LOAN, having a GRANT ELEMENT of at least 25%).

**OTHER OFFICIAL FLOWS (OOF):** Transactions by the official sector with countries on the DAC LIST OF AID RECIPIENTS which do not meet the conditions for eligibility as OFFICIAL DEVELOPMENT ASSISTANCE or OFFICIAL AID.

**PARTIALLY UNTIED AID:** OFFICIAL DEVELOPMENT ASSISTANCE (or OFFICIAL AID) for which the associated goods and services must be procured in the donor country or among a restricted group of other countries, which must however include substantially all recipient countries.

**PRIVATE FLOWS:** Consist of the following flows at market terms financed out of private sector resources:

**Direct investment:** Investment made to acquire or add to a lasting interest in an enterprise in a country on the DAC LIST OF AID RECIPIENTS. In practice it is recorded as the change in the net worth of a subsidiary in a recipient country to the parent company, as shown in the books of the latter.

**Bilateral portfolio investment:** Includes bank lending, and the purchase of shares, bonds and real estate.

**Multilateral portfolio investment:** This covers the transactions of the private non-bank and bank sector in the securities issued by multilateral institutions.

**Private export credits:** See EXPORT CREDITS.

**TECHNICAL CO-OPERATION:** Includes both i) GRANTS to nationals of recipient countries receiving education or training at home or abroad, and ii) payments to consultants, advisers and similar personnel as well as teachers and administrators serving in recipient countries.

**TIED AID:** Official GRANTS or LOANS where procurement of the goods or services involved is limited to the donor country or to a group of countries which does not include substantially all recipient countries.

**UNTIED AID:** OFFICIAL DEVELOPMENT ASSISTANCE (or OFFICIAL AID) for which the associated goods and services may be fully and freely procured in substantially all countries.

**VOLUME:** Unless otherwise stated, data are expressed in current United States dollars. Data in national currencies are converted into dollars using annual average exchange rates. To give a truer idea of the volume of flows over time, some data are presented in **constant prices and exchange rates**, with a reference year specified. This means that adjustment has been made to cover both inflation between the year in question and the reference year, and changes in the exchange rate between the currency concerned and the United States dollar over the same period.

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