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Report to the Chairman, Committee on Foreign Affairs, House of Representatives

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FOREIGN ASSISTANCE

AID's Private-Sector Assistance Program at a Crossroads

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The Honorable Dante B. Fascell
Chairman, Committee on Foreign Affairs
House of Representatives

Dear Mr. Chairman:

This report responds to your request that we review activities supported by the Agency for International Development that are intended to facilitate private-sector-led growth in developing countries. We make several recommendations aimed at defining the agency's role in this area.

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

Sincerely yours,

Frank C. Conahan

Frank C. Conahan
Assistant Comptroller General

Executive Summary

Purpose

Concerned about the need to clarify the role of the Agency for International Development (AID) in facilitating private-sector development, the Chairman of the House Committee on Foreign Affairs asked GAO to examine the agency's operations in this area. Specifically, GAO evaluated (1) the nature and extent of AID's commitment to private-sector development; (2) the results of this assistance, including sustainability and impact on the poor; and (3) the orientation of AID's private-sector assistance for the future.

Background

The Foreign Assistance Act of 1961, as amended, instructs AID to encourage free enterprise in developing countries, among many other objectives. Interpretation of this instruction has evolved through the agency's history. In 1981 AID announced a Private Enterprise Initiative, intended to orient programming toward facilitating private-sector-led growth. In 1990 this was supplemented by the announcement of a Partnership for Business and Development Initiative, intended to encourage greater U.S. private-sector involvement in developing countries.

Results in Brief

AID has slowly formed a commitment to private-sector development. The agency now assigns this goal a high priority and designates substantial resources for this purpose. However, AID's ability to focus on this area is constrained by several impediments, including competing priorities and a lack of staff expertise.

AID's private-sector assistance has had mixed success, with best results obtained in supportive environments when sufficient resources and appropriate expertise were applied. While private-sector support helps to initiate sustainable growth, AID has difficulty creating self-sustaining institutions to deliver services after assistance ends. Critics of AID's increased private-sector focus question the impact of this approach on poorer elements of developing country populations. However, AID's private-sector emphasis does benefit poorer people directly and indirectly.

AID's future orientation in this area is uncertain. The agency's Business Partnership Initiative posits AID as a facilitator of U.S. business activity in developing countries. However, AID is not well prepared to become a leader in directly advancing U.S. commercial interests abroad. Before AID can become a substantial contributor in this area, the nature and extent of its role, if any, in directly promoting U.S. trade and investment relations with developing countries will have to be defined in relation to its other objectives and to other agencies' responsibilities.

Principal Findings

Slow Transition to Private-Sector Support

Over the past decade, developing countries have moved away from their traditional orientation toward state-led economic models. They have become more receptive to private-sector economic models, and AID has made facilitating private-sector growth a clear priority. Although the agency declared a Private Enterprise Initiative in 1981, change in this direction has been slow. According to AID, about 25 percent of fiscal year 1991 program funds (excluding assistance to Israel) served to promote private-sector development. Most AID country programs provide some private-sector support.

AID's ability to pursue this goal is constrained because the agency must also address many other goals, some of which have congressionally mandated funding levels. Also, AID does not control the allocation of economic support funds among countries. In addition, only about 5 percent of the agency's work force is classified as private-sector experts, and as of June 1992, about 21 percent of the private-sector specialist positions in the agency were vacant. Personnel in other classifications often lack private-sector skills.

In March 1992, GAO recommended that the AID Administrator establish a strategic management process for the agency, taking steps to articulate a clear strategic direction for the future. The agency's commitment to private-sector development seems certain to be a key consideration in any such exercise.

Mixed Results in a Variety of Programs

AID encourages private-sector development through policy dialogue supported by cash transfers, and through a wide variety of projects. Whichever mechanism is used, important determinants of success include (1) a supportive environment (including political will on the part of the recipient government to remove institutional obstacles such as unfavorable regulatory environments and inadequate financial systems), (2) sufficient funding, and (3) appropriate expertise. AID has limited ability to exercise leverage with governments that are not receptive to reform, but it can provide effective technical assistance to facilitate reform where the environment is amenable. For example, financial market programs succeeded in Indonesia, where the government was committed to change and AID supplied substantial resources and well-targeted expertise. However, similar efforts in Bolivia and Tunisia were less successful because they lacked government support and faced other institutional resistance and inadequate resources.

AID has drawn upon agency-sponsored research and practical experience in de-emphasizing traditional approaches to providing credit and trade and investment assistance, such as development finance institutions[1] and government trade promotion organizations. The agency has recognized that traditional approaches are often not effective in meeting their goals and are unlikely to become self-sustaining. AID is developing new approaches and has encouraged missions to become more active in developing financial markets.

AID private-sector support is intended to foster self-sustaining development by helping private firms assume a greater role in the economy. However, entities created to foster private-sector growth, such as development finance, agricultural, and educational institutions, often cannot continue to function without infusions of additional donor capital. AID has issued guidance on enhancing sustainability, and AID missions, to varying degrees, are increasing their emphasis on this aspect of project design.

AID believes private-sector-led development to be better than state-led economic models as a vehicle for generating growth that will meet the needs of the poor. Elements of AID private-sector support, such as microenterprise lending and small business programs, directly address poor people's needs. Also, AID missions address some program elements at broadening participation in the economy, thus indirectly helping the poor. Most missions also continue to provide short-term non-private-sector assistance to poor people to ease hardships brought about by government structural reform programs.

AID's Future Role Uncertain

AID's future role, relative to other U.S. government agencies, in private-sector development is uncertain, particularly with regard to the support it can provide U.S. firms. A key question that must be answered is whether AID should be concerned more with developing open markets in which all firms have an opportunity to prosper in the long run, or with obtaining near-term commercial advantage for U.S. firms. AID is currently focused on the former. AID has had difficulty facilitating U.S. business activity, and agency resources are not allocated to maximize the promotion of U.S. commercial interests. A substantial expansion of activities

[1] Donor agencies have traditionally established development finance institutions to provide long-term credit to underserved populations, such as small businesses and rural borrowers.

specifically aimed at engaging U.S. business would involve a shift in emphasis for AID into an area in which it has limited expertise, and in which other U.S. agencies are already active.

In January 1992, GAO reported that the roles of various government agencies, including AID, in supporting U.S. exports have not been defined relative to one another. GAO recommended that the Trade Promotion Coordinating Committee, composed of representatives from several executive departments and agencies, develop a governmentwide strategic plan for export promotion programs and ensure that budget requests reflect these programs' relative importance to U.S. government export promotion activities. The Trade Promotion Coordinating Committee, including AID, is working to implement GAO's recommendation concerning development of a governmentwide export promotion strategy. Implementation of this recommendation should provide a basis and direction for defining AID's role in addressing U.S. commercial interests abroad.

Recommendations

AID has begun a process to gain broad-based consensus and a clear articulation of the agency's role and mission for the post-Cold War era. If, at the conclusion of this process, private-sector development remains a high-priority agency objective, GAO recommends that the AID Administrator build commensurate staff expertise by (1) reordering hiring priorities to augment the agency's private-sector specialist staff and (2) instituting a formal training program to increase the private-sector orientation and skills of specialists in other sectors. GAO also recommends that, as part of this process, the Administrator work with the Congress, the Office of Management and Budget, and the other members of the Trade Promotion Coordinating Committee to define the role, if any, that AID will play in directly advancing U.S. commercial interests in developing countries.

GAO also recommends that the AID Administrator take a number of steps to improve the prospects for success in private-sector development. These are discussed in chapter 3.

Agency Comments

In commenting on a draft of this report, AID stated that GAO provided a reasonable assessment of the agency's efforts to promote private-sector development. AID did not comment on the recommendations contained in this report. The text of AID's comments and GAO's evaluation of them appear in appendix I.

Contents

Abbreviations

AID	Agency for International Development
ESF	Economic Support Fund
GAO	General Accounting Office
LAC	Latin America and the Caribbean
US&FCS	U.S. and Foreign Commercial Service

Introduction

The Foreign Assistance Act of 1961, as amended, states that it is U.S. policy to encourage free enterprise and private participation in the economies of developing countries.[1] The act also states that U.S. foreign assistance should be carried out "through the private sector" to the maximum extent practicable.[2] These are two of a multitude of objectives specified for the Agency for International Development (AID) by the oft-amended act and associated congressional guidance. The emphasis given to private-sector support has evolved over the past 3 decades, as has the content of relevant AID programming.

During the 1960s a substantial portion of AID's budget went to loan programs to support private- and public-sector investment in developing economies. Most of this money supported major capital projects that, in addition to facilitating economic development, provided substantial direct trade benefits to U.S. companies. During the 1970s, under the "New Directions" legislation, AID increased its focus on addressing "basic human needs" by working through recipient governments to directly alleviate human suffering.[3] Capital projects were de-emphasized, though U.S. support for this aspect of development continued through multilateral development banks. This change in AID's focus was made in response to the perception that capital projects had done little or nothing to alleviate poverty.

In 1981 AID announced a Private Enterprise Initiative intended to focus AID's efforts on two complementary goals: encouraging developing countries to increase their reliance on competitive markets as a means of meeting basic human needs and facilitating the growth of private businesses. Reorienting AID's efforts in this manner was acknowledged to require a substantial change in the agency, which had spent the 1970s developing expertise in working with indigenous governments to address basic human needs, and a Bureau for Private Enterprise was created to provide a focal point for the agency's new efforts. Funding for capital projects continued to decline (falling to about $551 million in 1991—about 50 percent of the 1984 level) and remained concentrated in a handful of locations (Egypt, the Philippines, and countries assisted through AID's Southern Africa Regional Program).

[1] Section 601.

[2] Section 102(b)(8).

[3] See the Foreign Assistance Act of 1973 (P.L. 93-189).

In 1990 AID announced several management and program initiatives. Among these was a multi-element Partnership for Business and Development, intended to facilitate U.S. private-sector involvement in developing countries.[4] Most discussion of the Partnership has focused on a proposed capital projects fund and a Center for Trade and Investment Services designed to provide information to create linkages between U.S. and developing country firms.

Objectives, Scope, and Methodology

The Chairman of the House Committee on Foreign Affairs requested that we review AID's private-sector-focused assistance. Specifically, our objectives were to evaluate (1) the nature and extent of AID's commitment to private-sector development; (2) the results of this assistance, including its sustainability and impact on the poor; and (3) the orientation of AID's private-sector assistance for the future.

We performed our work at AID headquarters in Washington, D.C., and at AID missions in Jamaica, Bolivia, Cameroon, Tunisia, and Indonesia. We interviewed and obtained documentation from AID officials, consultants, and contractors; U.S. and host country business people; officials from the Departments of State and Commerce; other donors (including multilateral development banks); and the governments of the countries we visited.

Collectively, the five countries we visited offered an opportunity to examine a range of AID programs. They represented AID programming under the purview of four of AID's five regional bureaus—Latin America and the Caribbean (LAC), Africa, Near East, and Asia. We did not examine activity within AID's Bureau for Europe. AID's focal point within this bureau is assistance for Eastern Europe, an activity that was only recently inaugurated and has been the topic of several other GAO reports.[5] We did, however, include the Europe Bureau in overall agency funding and staffing figures. AID's Housing Guarantee Program has substantial private-sector

[4]The Partnership was one of four initiatives announced by the AID Administrator in December 1990. The other three focused on democracy, family and development, and management.

[5]Poland and Hungary: Economic Transition and U.S. Assistance (GAO/NSIAD-92-102, May 1, 1992); Eastern Europe: Status of U.S. Assistance Efforts (GAO/NSIAD-91-110, Feb. 26, 1991);Eastern Europe: Donor Assistance and Reform Efforts (GAO/NSIAD-91-21, Nov. 30, 1990).

support implications, but it was also excluded from our review. This program has also been the subject of several GAO reports.[6] Budget numbers and project titles are not by themselves good indicators of the significance or content of AID private-sector support. We determined the magnitude and focus of AID assistance in this area by reviewing mission programming in the countries we visited.

AID issues some overall statistics on the funding devoted to various private-sector purposes, including financial markets, business development, trade and investment, and agribusiness development. These numbers give some indication of the orientation of the agency but are imprecise and can be misleading, especially when used to judge funding allocations at specific missions or for specific purposes. We make limited use of these statistics. We did not independently verify these numbers or other statistical information provided by AID.

Because AID's information on program results was uneven in quality, we were not able to prepare summary statistics on program impact across missions, or to present impact assessments for every private-sector program in the countries we visited. We made use of such information as was available or could be determined in the limited time spent in each visited country.[7]

We conducted our review between July 1991 and June 1992 in accordance with generally accepted government auditing standards. AID provided written comments on a draft of this report. The text of AID's comments and our evaluation of them appear in appendix I.

[6] Foreign Assistance: The Solanda Housing Guarantee Project in Ecuador (GAO/NSIAD-86-120, May 21, 1986); AID's Management of the Housing Guaranty Program (GAO/NSIAD-84-75, Apr. 1984); Agency for International Development's Housing Investment Guarantee Program (GAO/ID-78-44, Aug. 18, 1978); The Challenge of Meeting Shelter Needs in Less Developed Countries (GAO/ID-77-39, Nov. 4, 1977).

[7] In a previous report, AID Management: Strategic Management Can Help AID Face Current and Future Challenges (GAO/NSIAD-92-100, Mar. 6, 1992), we reported that AID had not collected adequate baseline data to determine whether its programs were effective, and that AID did not have adequate evaluation systems for measuring program impact. AID recently instituted an Evaluation Initiative to improve its ability to evaluate and report on the results of its programs.

AID Has Slowly Formed a Commitment to Private-Sector Development

Since announcing its Private Enterprise Initiative in 1981, AID has slowly formed a commitment to private-sector development. While private-sector development is not a major concern at all missions, agency goal statements indicate that AID now has made such support a priority. AID designated about one-fourth of its obligations for private-sector support in fiscal year 1991. AID's ability to effectively focus assistance on this area, however, continues to be constrained because the agency is required to address numerous competing priorities and lacks relevant staff expertise.

Slow Shift to Private-Sector Development

Although AID missions increased private-sector programming in the early 1980s in response to the Private Enterprise Initiative, AID officials and others told us that a substantial movement toward making the private sector a priority occurred more recently and is still underway. The agency's slow implementation of the initiative can be attributed to factors external and internal to AID.

Developing Countries Have Become More Receptive

Historically, many developing countries have chosen state-led economic development models. In doing so, they have created environments that have not been conducive to private-sector activity. Their economies typically have been dominated by state-owned enterprises (which are often inefficient); have hostile or inadequate legal structures, subsidized prices and controlled wages, inefficient financial systems, foreign exchange controls, inappropriate tax systems, inadequate infrastructure, and unskilled work forces; and lack access to technical know-how in such areas as planning, management, distribution, and accounting.

Economic crisis and political change convinced many developing country governments during the 1980s that they could not continue on this path. This shift in orientation offered AID a window of opportunity during the mid- to late 1980s to increase cooperation with these governments in fostering private-sector-led growth. Among the countries we visited, for example, the governments of Bolivia, Cameroon, Indonesia, and Tunisia experienced severe problems during this period and reoriented themselves toward private-sector-led development.[1]

[1]The government of Cameroon realizes that change is necessary, but institutional resistance has been greater in this country than in the others we visited.

AID Units Agree on High Priority of Private-Sector Development

At the outset, many agency staff resisted the Private Enterprise Initiative, viewing it as a threat to the basic human needs agenda of preceding years. Because AID is a decentralized agency, the approach, content, and degree of emphasis given various goals vary substantially across programming units. However, all of the agency's regional bureaus and many country missions, including those we visited, now feature private-sector development prominently among their concerns.

Headquarters Bureaus

The LAC Bureau has traditionally been in the forefront of private-sector programming, due in part to the U.S. government's commitment to encouraging trade and investment relations with other countries in the Americas under the Caribbean Basin and Enterprise for the Americas initiatives. The Asia and Near East bureaus now also place private-sector support in the forefront of their goals statements. Although the Africa Bureau has traditionally been regarded as least focused on private-sector support, it now places a heavy emphasis on strengthening competitive markets while reducing the role of government in the economy.

AID Missions

In accordance with the LAC Bureau's long-standing commitment to private-sector support, the Jamaica and Bolivia missions have placed a high priority on this objective for a number of years. For example, AID/Jamaica developed a private-sector strategy as early as 1982, and the mission's primary current goal is to facilitate sustained private-sector-led growth.

Missions in the other regions we visited have more recently elevated the priority placed on private-sector support. Beginning in 1990, AID/Cameroon shifted focus to direct substantial resources toward developing a market-oriented private sector while decreasing the overextended role of the national government. The mission developed a private-sector strategy paper late in 1991. AID/Tunisia developed its initial private-sector strategy in 1988, and the mission is now highly focused on facilitating private-sector growth. State Department officials pointed out that the country has reached a stage in its development where traditional assistance programs are not warranted.

AID/Indonesia has gone through several exercises in recent years aimed at bringing focus to its programming, with private-sector support gaining increased prominence. The Indonesia mission's 1991 vision statement identifies three major objectives for the mission, all of which are directly related to private-sector growth. These are fostering private provision of public services, strengthening Indonesian competitiveness in world markets, and enhancing the quality of human resources for private-sector development.

Significant Portion of Resources Designated for Private-Sector Support

According to AID, the agency devoted about $1.3 billion to private-sector programming in fiscal year 1991—about 25 percent of the agency's obligations, excluding the large cash transfer to Israel.[2] This figure takes into account projects financed through the Economic Support Fund (ESF), Development Assistance, and the Development Fund for Africa. The Asia Bureau designated the highest portion of its total obligations as supporting private-sector development—about 31 percent. The LAC, Africa, and Near East bureaus designated about 27, 25, and 19 percent of their obligations, respectively, as supporting private-sector development.

These totals include programs devoted entirely to support for businesses (management consulting, for example). They also include portions of programs directed toward other objectives that are also intended to increase the private-sector orientation of the economy. For example, a program aimed at improving health care may include some features intended to promote the private provision of services. AID missions in all five countries that we visited have designed programs in areas such as health, education, and agriculture to encourage a greater private-sector orientation in the economy.

AID also reports that about 18 percent of its fiscal year 1991 funding (about $903 million) was provided in the form of cash transfers in support of nonsectoral policy reform.[3] Promoting reforms that support private-sector growth is a prominent objective of policy dialogue with host country officials. AID missions coordinate their policy dialogue efforts with related activity undertaken by representatives of multilateral financial institutions, including the International Monetary Fund and the World Bank. In addition, AID missions use a portion of local currencies generated through cash transfers and the Food for Peace program to support private-sector programming.

Most AID country programs provide some private-sector support. Even in Africa, where assistance to directly address basic human needs is an especially prominent concern, AID data shows that private-sector-related

[2]This cash transfer amounted to $1.85 billion in 1991.

[3]This percentage is calculated with the Israel cash transfer excluded.

programming constituted at least 20 percent of total funding in 14 countries in 1991.

Headquarters Programs Support Mission Programming

The Private Enterprise Bureau obligated about $21 million during 1991 to support a wide variety of programs directed at assisting missions in designing and carrying out more effective private-sector programming. The Bureau also administers a worldwide Private Sector Investment Program, which offers partial loan guarantees (up to 50 percent) and loans primarily benefitting small businesses in developing countries. In 1991, the Private Enterprise Bureau was authorized to guarantee up to $114 million in loans and to lend $15 million under this program.[4]

The regional bureaus all have private-sector officers on their headquarters staffs. The Bureau for Africa, traditionally perceived as having the least degree of private-sector expertise in the field, provides the greatest degree of headquarters support to the missions for which it is responsible. The Bureau obligated $8.4 million in 1991 for its Africa Private Enterprise Fund, which supports a wide variety of services to Bureau missions. The remaining bureau headquarters offices are less active.

AID missions that we visited have used centrally funded projects, including those supported by the Private Enterprise Bureau, to assist in their operations on an as-needed basis. The degree to which missions used headquarters programs varied by region. Perhaps because of the recently ended close association of Asia missions with the Private Enterprise Bureau under the Asia/Private Enterprise Bureau, AID/Indonesia was strongly inclined toward using the Private Enterprise Bureau's services.[5] AID/Tunisia obtained assistance through the Private Enterprise Bureau to plan its overall private-sector support and carry out privatization and financial markets activities. The Cameroon mission relied more heavily on programs sponsored by the Africa Bureau. The missions that we visited in the LAC region were more independent of headquarters support, presumably due to the LAC Bureau's established tradition of providing private-sector support.

Some AID officials, including Private Enterprise Bureau staff, were critical of the Bureau's ability to provide coordinated assistance to missions in

[4]Maximum loan size for small businesses is the local currency equivalent of $150,000.

[5]During 1990-91, responsibility for AID missions in Asia was briefly combined in one office with responsibility for centrally funded private-enterprise programs.

cooperation with regional bureaus. Among other things, they complained that inadequate travel funds hampered the Bureau's ability to communicate with missions. They were also critical of the caliber of financial markets assistance that the Bureau provided. The Private Enterprise Bureau has taken some action to address these problems, though they have not been entirely eliminated. For example, it assembled comprehensive descriptions of Bureau services and reformulated a capital finance project to support mission programming beginning in 1993.[6]

Constraints on AID's Private-Sector Focus

AID's ability to focus assistance on private-sector development is constrained by several impediments, including requirements that it address numerous competing priorities and a lack of relevant staff expertise.

AID Has Many Competing Priorities

AID's ability to program funds to support private-sector development is limited by the necessity of addressing a wide variety of assigned goals, and by the fact that the agency does not exercise complete control over the allocation of funds among countries.

The Foreign Assistance Act, as amended, contains more than 30 separate directives covering a wide variety of objectives. In addition to earmarking AID funds for various country- and program-specific goals, Congress exercises broad control over Development Assistance funds by allocating them among several functional accounts, including health and agriculture, rural development, and nutrition.

The private sector, environment, and energy functional account was allocated only about 12 percent of the approximately $1.4 billion allocated among functional accounts in 1991. However, AID was able to devote a higher portion of Development Assistance funds to private-sector development through activities that simultaneously addressed the basic purposes of other functional accounts, purposes such as improving health care or fostering agricultural development.

The Development Fund for Africa was designed to provide missions in that region with greater flexibility by eliminating functional accounts. This flexibility permits Africa missions to concentrate on private-sector support

[6]An agencywide Financial Markets Working Group has also been established to facilitate information exchange in this area within the agency. In addition, the Private Enterprise Bureau established a Financial Services Volunteer Corps to provide expertise on a voluntary basis.

when circumstances warrant. For example, AID/Cameroon developed a highly focused program wherein about 63 percent of mission obligations in 1990 and 1991 served directly to facilitate development of private marketing mechanisms in the agricultural sector.

Economic support funds are not divided into functional accounts. Sometimes, as in Tunisia and Bolivia, they support private-sector projects in addition to their more common use to support policy reform dialogue. However, congressional earmarks designate the recipients for most of these funds, and the State Department allocates the remainder with limited AID concurrence. ESF support is provided on the basis of a variety of political considerations, and AID is not free to shift these resources among countries in response to perceived opportunities for effective private-sector support. For example, we found in a prior review that private enterprise activities in Egypt have been delayed because they are politically unpopular there.[7] Nonetheless, AID reported obligating over $200 million in ESF funding per year to support private-sector development in Egypt.

In light of competing requirements, reprogramming efforts in favor of private-sector development can only proceed so far. For example, Asia Bureau officials stated that they had proposed significant shifts in emphasis in favor of private-sector support for 1993, but the necessity of addressing AID's many other concerns prevented the plan from being adopted.

Performance-Based Budgeting will Marginally Increase Flexibility

AID is developing an agencywide performance-based budgeting system in an effort to ensure that AID resources will be more effectively allocated. This system, projected to come into effect in 1994, relies on measures of macroeconomic stability and the policy/regulatory environment for trade and business activity in recipient countries. Such a system could indicate reduced assistance for countries where essential progress toward bringing about an environment conducive to private-sector activity may not be a reasonable goal in the foreseeable future.

Even with this system in operation, however, allocation of funds (especially ESF) will continue to be heavily influenced by a variety of considerations that have little to do with whether conditions are favorable for real economic growth—considerations such as expressing political support for

[7]Foreign Assistance: Funds Obligated Remain Unspent for Years (GAO/NSIAD-91-123, Apr. 9, 1991).

the government in power, as in Tunisia; stemming the flow of drugs into the United States, as in Bolivia; or addressing other foreign policy concerns.

Lack of Staff Expertise

In our March 1992 report on AID management (GAO/NSIAD-92-100), we noted that AID staffing patterns did not reflect changing priorities. The agency has recognized the need for improvement in its work force planning system and is studying the issues. Nonetheless, though AID has generally increased the emphasis it places on private-sector support, the agency's ability to develop programming in support of private-sector growth is constrained by a scarcity of trained and skilled personnel. Several AID officials commented that the agency's lack of financial markets expertise was particularly acute.

As of June 1992, AID's agencywide personnel tracking system displayed only 68 U.S. direct-hire personnel in the agency's personnel classification for the business, industry, and private-sector career track. This number had increased from 58 in November 1991 but still represented only about 5 percent of the agency total.[8] Twenty-three of these persons were employed by the Private Enterprise Bureau. Only 32 were assigned to overseas missions.[9] As in every other type of AID activity, U.S. direct hires working in this area are supplemented by foreign nationals hired by missions, personal services contractors, and persons employed by consulting firms engaged to carry out specific AID projects. However, AID continues to rely on its direct hires to take the lead in managing mission activities.

Allocation of such direct-hire personnel as are available is not equitable among regions. Of the 42 private-sector specialists employed by regional bureau headquarters and missions in June 1992, 23 were in LAC. The Asia, Africa, and Near East bureaus employed 9, 4, and 4 specialists, respectively.[10]

These specialists are not distributed within regions in accord with private-sector funding patterns. Within the LAC Bureau, for example, the

[8] The total of 68 does not include persons, such as procurement officers, employed to conduct AID's business affairs. In October 1991, AID employed 1,432 U.S. direct-hire personnel in program and sector management positions. This figure excludes persons in support management and administrative positions.

[9] Of the remaining 13 people, 10 worked on regional bureau headquarters staffs and 3 worked in other headquarters offices.

[10] The Bureau for Europe also employed two specialists.

Jamaica mission employed three private-sector specialists to operate a program much smaller than that managed by the Bolivia mission with two specialists in this career track. According to AID, the Egypt mission, with the largest budget of any AID mission, employed no private-sector specialists.

Outside the LAC region, most AID missions do not have a foreign service officer assigned exclusively to private-sector support activities. Instead they assign these duties to an officer who also handles other responsibilities. For example, the program in Cameroon was developed under the supervision of an economist.

The relative scarcity of private-sector experts in the AID work force amplifies the negative aspects of the agency's personnel rotation policy. AID foreign service officers are required to rotate to different posts at 2- and 4-year intervals. One Private Enterprise Bureau staff member commented that this policy disrupted her efforts to work with individual missions over time. Cameroon mission officials raised similar objections to their being required to transfer after investing several years in developing an in-depth understanding of private-sector conditions in the country.

AID has not filled all of the private-sector specialist positions it has established. As of June 1992, about 21 percent of the positions in the private-sector career track were vacant. Also, the small number of positions available to persons wishing to specialize in private-sector development constitutes a disincentive to those who might consider an AID career in this area. For example, one senior private-sector specialist commented that there was only one opening in the most recent list of slots for AID staff about to rotate that would permit him to continue with responsibilities equivalent to his current position.

At the outset of the Private Enterprise Initiative in the early 1980s, most AID staff had no experience with private-sector-related development. Several AID officials in headquarters offices and missions pointed out that many employees were still not oriented in this direction. Even when they are, they may have difficulty putting this commitment into practice. Several AID officials commented that training was needed to enhance the private-sector skills of AID staff members.

AID statistics for 1991 show that about 28 percent of agricultural programming was dedicated to agribusiness, marketing, and credit activities. However, agricultural staff are often oriented toward addressing technical problems in farm production, rather than agribusiness. The following examples illustrate how the lack of adequate training and expertise has limited AID's ability to carry out projects with a private-sector focus. An AID evaluation of the Bolivia mission's recently completed Chapare regional development project reported that although the project's success depended on the economic viability of targeted crops, there had been no study of the markets for these crops. AID/Jamaica's agricultural office concentrated on facilitating agricultural exports through quasi-governmental organizations rather than privatizing export services.

Some education programs exhibited similar difficulties. For example, AID/Jamaica obligated over $13 million during the 1980s to support establishment of a system of vocational schools. While some of these institutions provided useful training in certain fields, such as hotel operations, prospective employers in other fields, such as garment manufacturers, found that the training provided to applicants was almost useless. The Tunisia and Jamaica missions recently reoriented their education and training programs to better serve private-sector needs.

AID formerly offered an annual training course entitled "The Role of the Private Sector in Development," but this course was last held during 1990. Since that time the agency has offered some instruction in trade and investment specifically and held seminars on a variety of private-sector topics (such as financial markets). However, the agency no longer offers a course designed to familiarize AID staff with private-sector development in general.

In commenting on this report, AID cited several factors that influenced the decision to terminate this course. These included (1) a decline in the target pool of eligible staff; (2) the conclusion that the original purpose of the training—to emphasize the importance of private-sector programming—seemed to have been accomplished; (3) budget limitations; and (4) a decreased emphasis on traditional sectoral training—e.g. agriculture and health—in favor of training in accountability and control. We recognize AID's rationale for redirecting its training emphasis to stress accountability and control. However, we believe that if AID retains private-sector development as a major program priority, then it must develop appropriate staff expertise.

AID also commented that a variety of legal, contractual, and procedural obstacles exist that further increase the difficulties faced by agency staff in implementing private-sector-oriented programming. These include conflict-of-interest rules and the desire to avoid direct subsidies to profit-making enterprises. We agree that these factors, in addition to inadequate staff and competing priorities, have made it difficult for AID to move toward a greater private-sector focus. We note, however, that many of these restrictions were instituted in order to prevent agency staff from abusing their positions.

Conclusions

Private-sector development has slowly become a priority for AID. However, the agency's ability to carry this commitment forward is limited by several factors including (1) the necessity for AID to concurrently address numerous other priorities, (2) the agency's inability to control allocation of a good portion of total U.S. assistance, (3) a lack of private-sector specialists, and (4) a lack of private-sector-oriented skills among the rest of the agency's work force.

In our March 1992 report on AID management, we recommended that the AID Administrator establish a strategic management process for the agency, taking the steps necessary to identify the key issues to be resolved and articulating a clear strategic direction to guide the agency into the future. The agency's commitment to private-sector development seems certain to be one of the key considerations in any such exercise.

Recommendations

AID has begun a process to gain broad-based consensus and a clear articulation of the agency's role and mission for the post-Cold War era. If, at the conclusion of this process, private-sector development remains a high priority for the agency, we recommend that the AID Administrator make a clear commitment to building commensurate staff expertise by (1) hiring staff with private-sector skills and (2) instituting a formal training program to increase the private-sector orientation and skills of specialists in other sectors.

AID Private-Sector Assistance Has Mixed Results

AID carries out a wide variety of efforts aimed at facilitating private-sector development. These efforts have achieved mixed results. No single type of program works best in all situations. Whichever mechanism is used, the impact of agency assistance depends in large measure on the supportiveness of the environment in the host country, the level of resources available, and the expertise applied in project design and administration.

AID credit and trade and investment programs are in transition, partially as a result of the agency's increased concern for sustainability. While AID promotes self-sustaining development by encouraging the growth of indigenous private sectors, the agency has had difficulty creating institutions that will continue to support private-sector growth when donor assistance ends.

Some have expressed concern that AID's increased attention to private-sector development could detract from programs targeted at the poor. We did not undertake analysis aimed at comparing the benefits realized by poorer people through AID activity in this area to the benefits that they could obtain if relevant funds were expended on other types of programs. Nevertheless, our review indicates that private-sector development does benefit poorer people directly and indirectly.

AID's Private-Sector Support Mechanisms

AID missions support private-sector development through a variety of mechanisms. Among these is policy dialogue supported by cash grants and technical assistance aimed at encouraging assisted countries to create an environment that will support private initiative. Missions also carry out projects aimed at such purposes as privatizing government-held enterprises, increasing the competitiveness of indigenous business, and improving financial markets.

Policy Dialogue and Associated Reforms

Official AID policy places dialogue to encourage greater reliance on competitive markets and private initiative at the forefront of the agency's private-sector support strategy. Dialogue aimed at reforms supporting these goals was a significant activity at most of the missions we visited. AID efforts in this area typically support or complement similar activity by international financial institutions such as the International Monetary Fund and the World Bank.

AID missions provide cash and Food for Peace program agricultural commodities to developing country governments in order to leverage adoption of legal or regulatory measures that will create a favorable private-sector environment, among other purposes. For example, AID/Jamaica developed a specific program of changes to facilitate private-sector activity. These changes are at the center of policy dialogue concerning the obligation of a projected $42 million from the ESF from 1991 through 1994.

Africa Bureau missions also make Development Fund for Africa obligations contingent on adoption of reforms. For example, AID/Cameroon has conditioned about $38 million in balance-of-payments support over several years on the government's enacting reform measures in the agricultural marketing and export processing sectors. These reforms support mission projects in these areas.

While cash transfers can support change, the impact of AID policy reform programs depends on the political will of the recipient governments. AID officials commented that recipient country leaders recognized the steps that needed to be taken, and that conditions in the country were more significant in determining the political will to change than the resources AID could bring to bear. For example, AID officials pointed to the Indonesian leadership's commitment to private-sector-oriented reform as a key factor in creating a receptive environment for AID assistance.

AID's leverage in many countries is limited by the relatively low level of resources available to the agency.[1] In Cameroon, for example, AID is the sixth largest donor, contributing only 6 percent of all external assistance to the country. The mission, therefore, concentrates its attention on reform in certain specific areas and does not attempt to address problems that are beyond its manageable interests. For example, mission staff identified the overvaluation of the local currency as a key constraint on private-sector development. However, they stated that the issue of nominal devaluation of the currency rests with the French government,[2] while the issue of real

[1]More leverage may be available in countries in the LAC region where the prospect of obtaining benefits through the Caribbean Basin and Enterprise for the Americas initiatives gives added weight to U.S. government views. Among these benefits are increased access to U.S. markets, investment incentives, and debt relief.

[2]As a member of the Franc Zone headed by the Banque des Etats de L'Afrique Centrale, Cameroon does not control its nominal exchange rate. The rate is fixed by the French government in return for the guaranteed full convertibility of the Franc CFA into French Francs at the rate of 50 to 1. The overvaluation of the Franc CFA creates a tax on Cameroon's exports and a subsidy on imports.

devaluation (reduction in real prices and wages) is being addressed by the World Bank and the International Monetary Fund.

When AID does have substantial funds available, they are typically from the ESF. As already noted, these funds are provided primarily with political goals in mind, and most are earmarked by Congress. In Bolivia, for example, the primary objective of ESF balance-of-payments support ($66 million in 1991) is coca eradication rather than economic reform. In 1988, we reported that the United States has had significant difficulty in using ESF and food aid to achieve economic development and policy reform. For example, when funds are earmarked, recipient countries are normally less willing to agree to reforms that might entail short-run political costs because they know that they will receive their economic support funds anyway.[3]

Technical Assistance

All of the missions that we visited have provided considerable technical assistance to support reforms in favor of the private sector. With limited resources available, for example, AID/Indonesia stresses "knowledge transfer" (over "resource transfer") as one of its primary functions.[4] Our review indicated that technical assistance has had an impact in reforming Indonesia's stock market and rural banking system. AID assisted the Jamaican government in reforming portions of its tax code and in developing new laws concerning regulation of business.

While technical assistance may be well executed, other factors may prevent it from having the desired impact. In Bolivia, for example, political opposition stalled legislative approval for privatization and pension reform laws drafted by AID consultants. Also, AID may help to bring about policy changes necessary to allow private-sector-led growth to happen, but these changes may not be sufficient in themselves. Investor behavior may hinge on other concerns. For example, AID officials indicated that even with AID's success in facilitating the establishment of a new free zone regime,[5] investment in Cameroon remains an attractive option only in certain

[3] Foreign Aid: Problems and Issues Affecting Economic Assistance (GAO/NSIAD 89-61BR, Dec. 30, 1988).

[4] Since Indonesia is the world's fifth most populous country, the AID mission's budget (about $67 million obligated in 1991) works out to only about 25 cents per person. This is one of the lowest rates of assistance per capita in AID.

[5] AID/Cameroon has assisted in developing a free zone law and implementing regulations. The mission is now engaged in a $6.2 million project to ensure the successful start-up of free zone activity.

agricultural sectors. Similarly, AID officials stated that Bolivia's image problem keeps investors away,[6] despite substantial AID-assisted reforms.

Privatization Assistance

AID policy directs missions to support privatization through a variety of activities—ranging from facilitating the opening of state-dominated economic sectors to private competition to directly assisting in the divestiture of state-owned companies and state-supplied services. AID statistics show that about 2 percent of the agency's overall funding is devoted to such purposes. All of the missions we visited during this review conducted activity in this area, with success in supportive environments.

The governments of Tunisia and Jamaica, in particular, are committed to privatization and have made major strides in this area with AID assistance. For example, AID/Tunisia has provided over $1 million in technical assistance and training, which has helped the government to privatize about three dozen companies with total assets of approximately $150 million.

Progress in this area may be inhibited by popular opposition and an aversion among host government officials to the political risk involved in supporting this policy. In Bolivia, for example, labor union opposition has prevented the government from moving ahead with AID-assisted plans for divestiture of state-owned enterprises. AID/Cameroon has been able to introduce private-sector systems in agricultural marketing only because economic crisis prevented the government from continuing the state-run system.

Business Development Programs

AID missions, including those we visited, conduct a variety of efforts aimed at improving the capabilities of indigenous businesses through education, training, trade promotion, and direct business support programs. Some of these programs have had a positive impact. For example, the Bolivia and Jamaica missions have achieved good results by providing business consulting services to export-oriented firms. Progress in AID/Tunisia's consulting program, on the other hand, was retarded by a variety of problems, including a lack of good business information and difficulties with the Tunisian customs service.

[6] Elements of this image problem include Bolivia's reputation for geographic remoteness, labor unrest, and association with the drug trade.

Financial Markets Reform

AID financial markets policy stresses reform to facilitate the development of market-oriented financial systems and intermediaries that can function in a competitive marketplace. For example, technical assistance to modernize and expand the Indonesian stock market has been quite successful. Since 1988 the number of companies listed on the exchange has grown from 24 to about 140. Approximately $5.5 billion was raised through new issues in 1991.

Constraints have limited success in other instances. AID/Bolivia has achieved some success in creating a functioning securities market, trading primarily in bank debentures. However, private companies have been slow to use the new system to raise capital.[7] Also, the government did not commit the resources needed to support a planned oversight commission.

AID/Tunisia has studied the country's financial markets and suggested reforms, some of which have been adopted. However, substantial obstacles to liberalization remain.[8] AID/Tunisia also designated local currencies generated through the Food for Peace program to a lending program to improve access to credit for small and medium-sized businesses. However, participating bank officials commented that the impact of the program was negligible, because the capital provided amounted to less than 1 percent of bank loan portfolios.

Credit Guarantee Programs

AID credit programs, including loan guarantees issued under the Private Enterprise Bureau's Private Sector Investment Program, are intended to help make credit available to underserved populations in the near term and to broaden the lending practices of indigenous institutions in the longer term.

Private Sector Investment Program guarantees have reportedly been successful in both of these dimensions in several countries, including Indonesia. However, in the countries we visited, the guarantees were in several instances inadequate to overcome traditional reluctance on the part of participating banks to make loans to targeted businesses. In Jamaica, for

[7]According to an AID-sponsored study, unfavorable tax laws and inadequate commercial and financial laws have constrained the development of securities markets in Bolivia. Businesses have also been reluctant to participate for a variety of other reasons—including a lack of familiarity with such markets, resistance to public disclosure of finances, close ties with commercial banks, and fear of weakening family control.

[8]According to a June 1991 Price Waterhouse report, USAID/Tunis Financial Sector Assessment obstacles included the inconvertibility of the Tunisian dinar, directed credit and subsidized interest rates for priority sectors, and compulsory subsidized loans to the government.

example, where the program was introduced in 1989, two of the four participating banks had not made any loans at the time of our visit. Two others had used only a small percentage of the available guarantees—about 3 percent in U.S. dollars.[9] Tight government monetary policies—high reserve requirements and high interest rates—convinced participating banks that it was better business to exercise other options, such as buying government securities.

Similarly, participating banks in Tunisia had made use of only about 5 percent of available guarantees in a program that was initiated in 1990. In Cameroon the bank that signed up for the program declined to use the guarantees at all. Banks in Tunisia and Cameroon complained about administrative restrictions that limited their flexibility in using the program. While these problems might suggest that the program would be more effective if decentralized, Private Enterprise Bureau officials stated that sufficient expertise did not exist in AID missions to operate the program on its present scale.[10]

Microenterprise Support

Among the AID missions we visited, those in Jamaica, Bolivia, and Indonesia operate microenterprise support programs.[11] While the Jamaica program was just getting underway at the time of our visit, the Bolivia and Indonesia missions have experienced success in both providing credit and establishing self-sustaining institutions. AID/Indonesia, for example, assisted in revamping a government-owned rural banking system that, by October 1990, was serving 115,000 clients a month and generating substantial profits with an average loan size of just over $400. A solid government commitment to market principles of operation and substantial AID-funded technical assistance helped make this project a success.

[9]This calculation was made at the rate of exchange prevailing in November 1991. Since the Jamaican dollar had lost significant value in comparison to the U.S. dollar in the preceding months, the calculation understates participating banks' actual use of guarantees.

[10]A 1988 GAO report, Foreign Aid: Issues Concerning AID's Private Sector Revolving Fund (GAO/NSIAD-88-185, July 18, 1988), pointed out that only about a third of the loan authority issued up to that time had resulted in loans being made.

[11]AID defines a "microenterprise" as a business or enterprise with 10 or fewer employees.

Credit and Trade and Investment Programs in Transition

AID credit and trade and investment support programs are in transition, with traditional approaches being de-emphasized and new ones being developed.

Development Finance Institutions

Donors have traditionally set up development finance institutions to provide long-term credit to underserved populations, such as small businesses and rural borrowers. These programs have also commonly been intended to produce self-sustaining institutions, thereby encouraging permanent expansion of financial markets to meet the needs of a wider segment of the population.

As reported in a recent AID study, development finance institutions have sometimes been effective in expanding the supply of credit to the private sector.[12] For example, the Jamaica mission has in recent years supported two such institutions that have benefitted underserved populations.[13] In many cases, however, development finance institution resources have not gone to the intended beneficiaries, in part because of high collateral requirements and loan transaction costs.

Also, because they focus on the needs of the borrower, rather than the institution making the loans, these programs have often created institutions that survive only through continued subsidies. AID/Jamaica officials, for example, did not regard either of the two institutions just mentioned as self-sustaining over the long term. This lack of sustainability limits not only the direct impact of the institutions themselves, but also their demonstration effect in encouraging other institutions to expand their operations.

Despite these shortcomings, other donors continue to rely on development finance institutions as a means of directing credit to target populations. AID, however, has concluded that financial market reforms may be more important in addressing the credit needs of underserved populations than loan capital provided through development finance institutions. Underserved populations can be assured continued access to credit only

[12] Development Finance Institutions: A Discussion of Donor Experience, AID Program Evaluation Discussion Paper No. 31, July 1990.

[13] AID supported the National Development Foundation with $5.8 million in project funds over the last decade. The Jamaica Agricultural Development Foundation was supported by about $21 million in local currencies generated through the Food for Peace program since 1984, supplemented by technical assistance and hurricane reconstruction funds.

when self-sustaining financial institutions can profitably serve them by lending at market rates of interest. The AID missions that we visited have, for the most part, oriented their programming away from development finance institutions.[14] AID encourages its missions to be active in financial markets development but has not developed a specific alternative to development finance institutions for encouraging expansion of services to meet the long-term credit needs of small businesses and rural borrowers.

In commenting on a draft of this report, AID indicated that agency research has shown that no specific, widely applicable alternative to development finance institutions is likely to be found, and that alternatives may best be developed based on local conditions in particular countries.

Trade and Investment Programs

Trade and investment promotion programs are a significant focus for AID private-sector development support. AID statistics show that the agency obligated about 4 percent of its funds in this area in 1991. All of the missions we visited support activity aimed at increasing export opportunities and investment for the assisted countries.

Such programs traditionally focused on promoting export sales and foreign investment through government or quasi-governmental organizations. However, experience has shown that host government-sponsored service providers are generally ineffective. AID studies have found that companies attach greater value to services provided by private nonprofit entities but that the agency has not had realistic expectations concerning these organizations' ability to become self-sustaining on the basis of fees for services rendered. AID studies show that limited-term promotion activity can have a worthwhile impact if and when policy and regulatory constraints have been addressed.[15] Missions officials also commented that promotional activity makes sense only when the industries being promoted are prepared to be competitive in international markets.

[14]AID/Jamaica ended support for the two institutions it had been supporting in 1990 and 1992, respectively. AID/Bolivia, however, was in the process of creating a new development finance institution at the time of our visit. This institution was to be supported by repayment of loans made with previous AID grants in the amount of $35 million. Though acknowledging the drawbacks, mission officials viewed this alternative as preferable to continuing to administer the existing loan program through a government organization.

[15]AID's Center for Development Information and Evaluation has undertaken a worldwide assessment of the agency's experience with export and investment promotion services. One volume has been published so far: Export and Investment Promotion: Sustainability and Effective Service Delivery—Volume 1: Synthesis of Findings from Latin America and the Caribbean (June 1992). Other volumes will follow.

The Cameroon, Bolivia, and Jamaica missions provide examples of how AID is changing its focus in this area in accordance with these lessons learned. AID/Cameroon's Policy Reform in the Export Processing Sector program aims to create a free zone regime within which export-oriented production can take place free of many of the bureaucratic impediments that continue to hamper investment and trade in Cameroon. During 1991, AID/Bolivia changed the focus of its trade promotion program to sharply limit assistance to existing trade promotion organizations. The mission decided to concentrate its efforts on a contractor hired to work directly with companies to reach specific trade and investment goals. According to AID, the project had generated $6.7 million in exports and 1,143 jobs as of September 1991. AID/Jamaica staff found that the country was not well prepared to respond to foreign demand. Accordingly, they targeted promotional activity more narrowly while increasing activity aimed at improving Jamaican companies' competitiveness.

Difficulty Establishing Self-Sustaining Institutions

Encouraging self-sustaining development is a basic concept behind the Private Enterprise Initiative. AID policy states that the reason for encouraging greater reliance on competitive markets and private enterprise is to generate "broadly-based self-sustaining economic growth." While AID private-sector support does facilitate self-sustaining development, the agency has had difficulty designing programs that foster the creation of institutions that will continue functioning when donor assistance ends. AID is increasing its concern with sustainability in project design and administration, although the degree to which this occurs varies among missions.

Private-sector support fosters self-sustaining development in that businesses started through loan programs, persons educated through AID training programs, and business contacts made through trade and investment promotion will continue to have an impact when AID assistance ends. However, developing self-sustaining institutions is more problematic. In the countries we visited AID has supported various institutions whose capacity to be self-sustaining was in doubt. In addition to development finance institutions and trade promotion organizations, these have included agricultural and educational support institutions and an urban redevelopment authority.

Officials of such organizations may agree that they should aspire to self-sustainability, but may define this condition as their being able to pay their own administrative expenses while continuing to rely on infusions of donor capital when expansion is contemplated. AID officials commented that these institutions were likely to run out of funds within a few years without continued infusions of capital. To become self-sustaining, assisted organizations must commit themselves to operating on market principles, generating enough income to meet operating costs and expand and replicate their operations.

AID's microenterprise support programs have made substantial progress toward developing a model for sustainability based on market principles. Traditionally, such programs offered subsidized rates of interest because it was thought that poorer populations could not afford market rates. However, experience has shown that the real problem for these borrowers is access to credit, not high interest rates, and that self-sustaining institutions can serve microentrepreneurs in a market environment. For example, an AID grantee in Bolivia is establishing a commercial bank that will accept deposits and make loans within this community.[16]

Often, however, the short-term focus of AID project planning and evaluation has worked against a priority emphasis on developing sustainable institutions. Projects are planned by persons who, because of AID's rotational policy, change posts before projects are evaluated. Project evaluations tend to concentrate on short-term impact, such as the number of jobs initially created.

AID has frequently emphasized project design and obligation of funds more than long-term program effectiveness and results. Concern for obligating funds and generating short-term results becomes particularly acute in countries where AID is under pressure to spend money quickly. Officials at the Bolivia mission, for example, pointed out that programming was driven by a desire to take immediate action to abate the cocaine trade. Mission projects in several areas, including small business finance, made no attempt to create sustainable institutions.

AID officials in Indonesia commented that the concept of sustainability became a required element in project design only within the last few years. As already discussed, AID programming is turning away from supporting development finance institutions and trade promotion organizations that are not self-sustaining. During 1991, the agency issued guidelines for improving sustainability in AID projects.

[16]Among the principles that have helped microenterprise programs to make progress toward sustainability are group lending, peer pressure to enforce loan repayment, and series of small loans.

All of the missions that we visited are now considering sustainability in their private-sector program planning. The Indonesia mission exhibited the greatest degree of concern. Mission policy made this concept a foremost mission priority in project design, implementation, and evaluation, and the mission held a workshop during 1991 to provide project officers with a clearer understanding of this concept as well as concrete suggestions for implementation. Other missions were less systematic. As already indicated, several AID/Bolivia projects did not make any provision in this area. AID/Tunisia documents indicated that sustainability was considered in project reviews but not in as great a depth as in Indonesia.

Benefits for Poorer People

Critics of AID's increased focus on the private sector question the impact of this approach on the poorer elements of developing country populations. They state that assisting the private sector does not directly address the needs of poorer people. AID private-sector assistance and trade development policy guidance does not instruct missions to address worker interests in carrying out relevant projects (e.g., ensuring fair wages and workplace safety). However, our review indicates that AID private-sector development assistance does benefit poorer people directly and indirectly.

AID believes private-sector-led development is better than State-led economic models as a vehicle for generating broad-based economic growth that will meet the basic human needs of the poor. That is, a healthy, growing private-sector economy benefits all segments of the population. U.S. officials in Tunisia and Indonesia, for example, stated that structural adjustments undertaken by the two countries had spurred economic growth and reduced indicators of poverty, such as unemployment and the percentage of the population living in absolute poverty. In contrast, the Cameroon economy, which relies heavily on the state, has been unable to recover from a collapse in export commodity prices in the mid-1980s.

Elements of AID's private-sector support are specifically designed to address the needs of poorer people. Most prominent among these are microenterprise programs, but others also address poor people's needs. For example, AID/Cameroon is replacing a bankrupt, government-run coffee marketing system, which did not pay poor farmers for their crops for several years in a row, with a private-sector system that works through grower cooperatives. AID/Jamaica documents indicate that an inner-city development project has created over 1,000 new jobs, primarily in manufacturing.

We also found that AID is aware of concern that private-sector support might primarily work to the advantage of ruling oligarchies. AID missions address some program elements at broadening participation in the economy. For example, aspects of financial-sector programming in all of the visited countries addressed this concern. These included, in addition to microenterprise and small business programs, the expansion of securities markets in Bolivia and Indonesia and the preparation of antitrust legislation in Jamaica. One effect of creating functioning equity markets is to foster a broader distribution of wealth through systems that permit average citizens to become shareholders. The Tunisia and Jamaica missions also made efforts to facilitate employee buy-outs of state-owned enterprises that were being privatized.

Program elements at most missions also provide short-term non-private-sector assistance to poor people to ease the difficulties brought about by government structural adjustment efforts. For example, the Jamaica, Bolivia, and Tunisia missions used local currency generated through the Food for Peace program to provide jobs for the chronically unemployed, sustain adequate health care and food supplies, or both. AID/Indonesia did not believe that structural adjustment was creating hardships for the poor. The mission does, nonetheless, continue with programs aimed at improving social services, as do other missions.

Conclusions

AID private-sector support activities have achieved mixed success: the best results are obtained in supportive environments, when sufficient resources and appropriate expertise are applied. AID missions have a limited ability to exercise leverage with assisted country governments but can provide effective technical assistance to facilitate reform. Host government cooperation in eliminating institutional obstacles to private sector-operations is a prerequisite for success.

AID is decreasing the emphasis placed on some traditional programming approaches, including government trade promotion organizations and development finance institutions, and is increasing its emphasis on encouraging systemic reform while focusing projects more narrowly. These changes reflect a realistic assessment of the potential for maximizing AID's impact with limited resources. However, the agency has not developed a specific model to replace development finance institutions in addressing the credit needs of underserved populations.

AID continues to have difficulty creating institutions that will continue to provide assistance when donor support ends. However, the agency is demonstrating an increased emphasis on sustainability in project design. AID's increased commitment to private-sector support has provided some benefits to poorer elements of the population in assisted countries.

Recommendations

To reinforce existing trends within AID that will maximize the impact of the agency's private-sector assistance, we recommend that the AID Administrator focus technical assistance on removing institutional obstacles to private-sector development, such as unfavorable regulatory environments, inadequate financial systems, and lack of business expertise. We recommend that before proceeding with private-sector development projects, the Administrator ensure that sufficient resources are available to enhance the potential for long-term success and that the host government has demonstrated the political will to cooperate in eliminating institutional obstacles to private-sector operations.

We also recommend that the AID Administrator further emphasize sustainability in private-sector project design and evaluation, particularly the development of self-sustaining institutions.

Future Orientation of AID's Private-Sector Assistance Is Uncertain

AID officials are increasingly concerned with demonstrating the opportunities that agency programs provide for U.S. business, including opportunities for exports to and investments in developing countries. The Partnership for Business and Development is intended to cast AID as a facilitator of greater U.S. commercial involvement in developing countries for the benefit of all parties.

However, activities that are intended to provide the United States with immediate commercial benefits constitute only a small portion of AID's private-sector programming. It is not clear what role the agency can or should play in this area, given the difficulties it experiences in carrying out its current private-sector programming and the fact that other federal agencies already operate programs directed at similar purposes. Greater concern for trade goals implies a shift in emphasis for AID into areas in which the agency has limited expertise and other agencies are already active.

Concern for Demonstrating Positive Impact on U.S. Business

With the end of the Cold War, commercial considerations are assuming an increased importance in U.S. foreign policy. Business outreach efforts are receiving heightened emphasis within the State Department. For example, U.S. ambassadors to Southeast Asian countries recently toured the United States to promote U.S. trade and investment in that region.

As we pointed out in our March 1992 report on AID management, the agency lacks clear priorities and meaningful direction. AID has come under heavy criticism from Congress both because of perceived mismanagement and the type of programs the agency supports. Foreign aid, in general, does not have strong public support. To address these concerns, AID is attempting to redefine its mission and rearrange its program priorities. Recasting AID in a role that more immediately supports U.S. business interests is a major issue in this redefinition.

Although mission programs continue to address a broad array of objectives, AID presentations concerning agency goals are being focused increasingly on the opportunities that its programs can generate for U.S. business. For instance, AID's fiscal year 1993 Congressional Presentation lists expanding U.S. markets and employment as the two leading reasons for providing foreign assistance. AID points out that developing countries are already substantial markets for the United States, taking about one-third of all U.S. exports, and that the potential exists for significant expansion of these markets. By the end of the century, four of five consumers will live in developing countries.

Direct Facilitation of U.S. Trade Is a Small Element in AID Programming

AID private-sector programming is aimed primarily at facilitating the growth of the private sector in developing countries. Agency officials point out that improving the environment in developing countries will open up trade and investment opportunities for U.S. (and other) businesses in the long run. For example, an AID analysis showed that U.S. exports to countries in the LAC region that had made major policy reforms during the 1980s increased by about $8 billion, while exports to countries that did not make major reforms fell by about $2 billion.

However, most AID programming does not produce the sort of immediate trade opportunities for U.S. firms that result from the operations of such agencies as the Export/Import Bank, the U.S. and Foreign Commercial Service (US&FCS), or the Overseas Private Investment Corporation. Although the influence of the Business Partnership seems evident in overall AID and individual bureau goal statements, it has had a limited impact on the missions we visited. Programs that hold immediate interest for U.S. businesses (aside from AID development project contractors)—capital projects and some elements of trade and investment promotion that directly target U.S. businesses—are generally small elements in mission programming.

For example, AID obligated about $551 million for capital projects in 1991, but most of this was provided through the missions to Egypt and the Philippines, and the Southern Africa Regional Program. Most missions, including those we visited, obligate little funding for this purpose, although AID/Jamaica committed $5 million to plan tourist infrastructure improvement projects that will be carried out with Japanese funds ($63 million).[1]

In 1991, AID/Indonesia committed $12 million to support part of a $500-million AID-Export/Import Bank mixed credit program that was administered from Washington and targeted at Indonesia and three other countries in the region. However, this program seems unlikely to be replicated in the future. A recent arrangement on tied aid credits reached

[1] All contracting on these projects will be done under open bidding procedures.

within the Organization for Economic Cooperation and Development reduces AID's likely future participation in mixed credits.[2] AID may continue to fund projects on a grant basis. However, the relatively small amount of resources available to AID in most countries appears even less substantial if funding must be provided solely through grant mechanisms rather than being supplemented with Export/Import Bank credits.

AID obligated about $220 million to support trade and investment programs in 1991. These projects are focused primarily on helping indigenous companies become more competitive in international markets, rather than on promoting U.S. firms' involvement in developing countries. Among the countries we visited, the Jamaica and Bolivia missions already emphasized facilitating trade and investment relations with the United States in the context of the LAC Bureau's support for the Enterprise for the Americas Initiative and other administration initiatives. Even in these missions, however, such efforts are fairly small in comparison with other mission programs.

Other missions have placed even less emphasis on U.S. business contacts. For example, the Cameroon mission has facilitated exploration of business opportunities by U.S. companies on occasion, but this has not been an ongoing activity. The Tunisia mission has conducted a number of activities aimed at establishing contacts between U.S. and Tunisian businesses, devoting $700,000 to this purpose. AID and State Department officials stated that little had been accomplished as of the time of our visit, but the mission was continuing its efforts.[3]

A number of centrally or regionally supported efforts, such as the Private Enterprise Bureau's Market and Technology Access Program and the Association of Southeast Asian Nations regional office's Private Investment and Trade Opportunities Program are designed in part to directly encourage U.S. entry into business relationships in developing countries. These programs have had some positive impact through facilitating communication between U.S. and developing country firms. However, they do not constitute a major effort within the context of overall AID programming.

[2]Implementation of the revised "Arrangement on Guidelines for Officially Supported Export Credits" began in February 1992.

[3]According to AID, the disruption in U.S. assistance to Tunisia caused by the Persian Gulf crisis was one factor accounting for the lack of success in this program.

Difficulties in Refocusing Program for Direct U.S. Business Impact

AID's Partnership for Business and Development posits AID as a facilitator of U.S.-developing country private-sector interaction for the benefit of all parties. Agency documentation on the Partnership states that AID's mission for the 1990s is to administer economic assistance programs that combine international concern and generosity with active promotion of American national interests. The Partnership envisions increased AID funding for capital projects and greater concentration on directly facilitating U.S. trade and investment with developing countries. However, AID's future in both areas is uncertain.

Capital Projects

AID lacks a clear mandate to shift major resources toward capital projects. As already noted, AID has only a limited ability to move funds among various types of programs without explicit congressional approval. Congress has not approved several recent proposals to augment funding in this area, including AID's proposed capital projects fund.

The Private Enterprise Bureau has established a capital projects office to provide missions with centralized access to the engineering expertise that they currently lack. The agency believes that this is an effective means for screening proposed projects to ensure technical and developmental merit and a positive impact on U.S. trade.

AID contemplates using a portion of any additional capital project funds that might be forthcoming to pay for engineering services on major projects. If well coordinated, this could be useful in supporting follow-on to financing for initial studies provided through the U.S. government's Trade and Development Program.[4] Funding engineering work by U.S. firms can lead to increased procurement opportunities for American firms during construction.

Facilitating U.S. Private Sector Involvement

AID has had difficulty functioning as a facilitator on behalf of U.S. businesses. Some AID officials and private-sector representatives commented, for example, that AID staff did not believe it was appropriate for them to work with individual private companies. Others stated that AID had developed and promulgated initiatives aimed at reaching out to business (such as the Business Partnership) without meaningful input from the business community. Agency officials have not been oriented toward dealing with private-sector representatives. This year, the agency

[4]We are currently reviewing the Trade and Development Program and its role in promoting U.S. export competitiveness.

inaugurated a Business Advisory Council that may help to correct this situation. However, the Council's functions have not yet been clarified.

AID's decentralized nature contributes to this situation. Business persons in the United States trying to get information on AID programs of interest to them, such as information on trade and investment programs, often experience frustration. Although country desk officers may seem logical points of contact, they often have very little first-hand knowledge of relevant programs. Those making inquiries are sometimes told to make long-distance phone calls to overseas missions. In September 1992, the Private Enterprise Bureau inaugurated a Center for Trade and Investment Services as part of its Business Partnership effort. The Center is expected to help ameliorate this problem by providing central access to information on trade and investment opportunities generated through AID activities.

Notwithstanding the potential usefulness of the Center, most agency staff are not oriented toward working as advocates for U.S. business, nor are they well prepared to undertake such tasks. If AID has a limited number of staff with expertise in general business development activities, expertise in direct promotion of U.S. business involvement abroad is an even rarer commodity. For example, the agency has had difficulty locating individuals to staff the Center. The two AID staff chosen as of June 1992 were dispatched to the interagency Trade Information Center at the Department of Commerce to gain experience.[5]

The Private Enterprise Bureau would seem to be the logical leader of any effort to develop a meaningful agency commitment to developing opportunities for U.S. business. Given the relative scarcity of private-sector expertise in the agency, however, the Bureau already has a major task to carry out in assisting missions with existing recipient-country-focused programming. Bureau personnel complained about being overburdened with existing programs. An expanded focus on U.S. business may come at the expense of existing responsibilities.

[5]In recent testimony, Export Promotion: Overall U.S. Strategy Needed (GAO/T-GGD-92-40, May 20, 1992), we reported that the AID Center for Trade and Investment Services appears to duplicate services already available through the Trade Information Center. The Trade Information Center already provides much information that AID proposes making accessible through the Center for Trade and Investment Services. In this review, we did not examine the duplication issue in detail. AID and Commerce Department officials believe that AID's center will complement that at Commerce by providing a central referral point for inquiries that would in any case be referred to AID.

AID's Role in Direct Support of U.S. Business Is Unclear

As we recently reported, the United States has no national export promotion strategy.[6] The roles that should be played by particular agencies in supporting U.S. foreign trade are not defined in relation to one another. Within the context of the multiplicity of goals that AID attempts to address, the agency lacks a clear conception of the extent to which it should focus on advancing U.S. commercial interests, or the precise role it should adopt in this regard. It is not easy to distinguish among many present and proposed AID activities in this area and efforts undertaken by the US&FCS, the Foreign Agricultural Service, the Overseas Private Investment Corporation, or the Trade and Development Program. Among these activities are organizing trade missions and otherwise promoting contact between U.S. and foreign business.

For example, the mission of the Overseas Private Investment Corporation—to encourage U.S. investment in developing countries—is part of the goal of several AID undertakings, including activities of the Association of Southeast Asian Nations regional office, the Private Enterprise Bureau, the LAC Bureau, and the Bolivia mission. AID's Philippines mission funds feasibility studies for development projects in that country, which is nominally the responsibility of the Trade and Development Program. More generally, it is very difficult, at least on a surface level, to differentiate clearly between recent US&FCS efforts to facilitate establishment of commercial relations with the republics of the former Soviet Union and certain AID efforts to enhance commercial interaction with developing countries, including Indonesia, Jamaica, and Tunisia. Top AID officials have posited agency missions as facilitating U.S. business entree into developing countries in the absence of US&FCS representation, but this is already the responsibility of State Department economic officers.

AID has to date been regarded as playing a subordinate role in recent U.S. efforts to foster growth in trade and investment relations with developing countries and the emerging democracies of Eastern Europe. Although AID is the U.S. government agency assigned with professional responsibility and resources to promote economic growth in developing countries, the agency was not given the lead role in assistance to Eastern Europe or the Enterprise for the Americas Initiative. The State Department and, in the latter case, the Treasury Department and the Office of the U.S. Trade Representative played more important roles in these undertakings.

[6] Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness (GAO/NSIAD 92-49, Jan. 10, 1992).

Good interdepartmental coordination is not universal. AID participates in the interagency Trade Promotion Coordinating Committee,[7] and individual offices within AID make their own efforts at coordination. For example, the LAC Bureau pays half of the costs of the Commerce Department's Latin America-Caribbean Business Development Center, and the Asia Bureau is cooperating with several other agencies in carrying out the United States-Asia Environmental Partnership.[8] Among the countries we visited, AID cooperated with the Overseas Private Investment Corporation to facilitate establishment of the free zone in Cameroon. AID/Indonesia is collaborating with the US&FCS to set up an American-Indonesian Business Center. However, we found that US&FCS personnel in Jamaica and Cameroon did not work closely with AID. AID's increased trade and investment promotion activity in countries within the Association of Southeast Asian Nations has created some friction with US&FCS staff over who is in charge of delivering these services to the U.S. business community.

In our January 1992 report on U.S. export promotion programs, we recommended that the Trade Promotion Coordinating Committee develop a governmentwide strategic plan for export promotion programs and ensure that budget requests reflect these programs' relative strategic importance. Implementation of this recommendation should provide a basis and direction for defining AID's role in addressing U.S. commercial interests abroad.

Concern for Short-Term Impact Implies Shift in Emphasis

Substantial expansion of activities specifically aimed at engaging U.S. business implies a shift in emphasis for AID into an area in which it has limited experience, and in which other U.S. agencies are already active. It may also imply a shift within AID's current private-sector programming away from addressing long-term structural problems, as well as an overall shift away from addressing other current AID priorities.

[7]Other members of the Committee with a wide range of export promotion programs are the Departments of Agriculture, Commerce, and Energy; the Export-Import Bank; the Overseas Private Investment Corporation; the Small Business Administration; and the Trade and Development Program. The Departments of State, the Treasury, Defense, Labor, and Transportation; the Office of Management and Budget; the Office of the U.S. Trade Representative; the Council of Economic Advisors; the U.S. Information Agency; and the Environmental Protection Agency are also members.

[8]The Partnership is an administration initiative aimed at focusing U.S. expertise and resources on Asia's environmental and energy needs.

Such an expansion could affect AID's ability to influence policy reform in developing countries. State Department, recipient government, and mission officials commented that AID's not being perceived as a commercial agent makes agency input to policy dialogue more credible. Other bilateral donor agencies are typically viewed as heavily invested in promoting the commercial interests of their home countries, and thus less likely to provide objective advice.[9]

AID Resources Not Allocated With Regard for Trade Opportunities

Among U.S. government agencies, AID has comparatively great potential resources (funds and personnel) available to assist U.S. business in gaining access to opportunities in developing countries. The US&FCS, for example, spent less than $100 million in 1991 to support a network of trade specialists in 69 U.S. cities and 67 foreign countries.

With the exception of the State Department, AID also has a presence in more countries than other agencies. AID is represented in 41 developing countries that do not have representation from either the US&FCS or the Foreign Agricultural Service. Among the countries we visited, the US&FCS had a full-scale office only in Indonesia, and was represented only by a foreign national in Jamaica and Cameroon. The Overseas Private Investment Corporation and the Trade and Development Program have almost no permanent foreign presence. As already mentioned, however, AID has few staff with expertise in commercial operations.

Also, AID resources are neither distributed nor expended with U.S. trade interests in mind. Many of the countries that lack representation from other specialized U.S. agencies offer limited trade prospects for U.S. firms. Most of these countries are comparatively poor, and the majority are in Africa where markets are dominated by European firms. Most developing countries that offer major trade opportunities, including Indonesia, Thailand, and the Philippines, do have representation from the US&FCS, Foreign Agricultural Service, or both.

Adoption of a performance-based budgeting system may help to direct assistance toward countries that are more oriented toward private-sector-led development. However, it will not ensure that assistance is channeled to countries that offer the greatest potential for U.S.

[9]The greater commercial orientation of Japan's foreign assistance program, for example, is discussed in our report, Economic Assistance: Integration of Japanese Aid and Trade Policies (GAO/NSIAD-90-149, May 24, 1990).

commercial involvement. A new-found commitment to private-sector development in Cameroon, for example, would most likely benefit primarily French traders and investors.

Conclusions

AID programming is being examined in light of the commercial benefits it can provide U.S. business. A key question that must be answered is whether AID should be more concerned with developing open markets in which all firms (including those owned by Americans) have an opportunity to prosper in the long run, or more with obtaining near-term commercial advantage for U.S. firms specifically.

AID's private-sector assistance is currently focused on the former task. While AID can function in the latter task on a relatively small scale, the agency is not well prepared to become a leader in directly advancing U.S. commercial interests abroad. Other agencies have greater expertise in this area, though they do not have AID's in-country presence.

Major decisions concerning staffing and allocation of resources will have to be made before AID can become a substantial contributor in this area. The role, if any, that AID should play in directly promoting U.S. trade and investment relations with developing countries will have to be defined in relation to other agencies' responsibilities. Given resource constraints, expansion of AID's role in this area may have to come at the expense of other priorities.

Recommendation

In prior reports, we recommended that the Administrator of AID develop a strategic management process for the agency and that the Secretary of Commerce, as chair of the Trade Promotion Coordinating Committee, work to develop a unified U.S. export promotion strategy. The agencies are working to carry out these recommendations. In the context of these efforts, we recommend that the AID administrator work with Congress and the other members of the Trade Promotion Coordinating Committee, including the Office of Management and Budget, to define the role, if any, that AID should play in directly advancing U.S. commercial interests in developing countries.

Comments From the Agency for International Development

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

USAID

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

October 22, 1992

Associate Administrator for Finance and Administration

Mr. Frank C. Conahan
Assistant Comptroller General
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

This letter provides Agency for International Development (A.I.D.) comments on the GAO's draft report entitled Foreign Assistance: AID's Private-Sector Assistance Has Mixed Results, Program at Crossroads (B-249938).

A.I.D. is generally pleased with the report. We believe it provides a sensible and reasonable assessment of A.I.D.'s efforts to promote private sector development. Nevertheless, there are a number of specific areas where we would suggest some clarification or adjustment.

See comment 1.

1. Procedural/Legal Problems. The report attributes slowness in implementing private sector approaches almost entirely to inadequate personnel and conflicting views within A.I.D. We believe that this ignores a variety of legal, contractual and procedural obstacles to such programs. Such obstacles -- limitations on contracting with the private sector, the prohibition on A.I.D. funding of equity investments, conflict of interest rules, the desire to avoid direct subsidies to profit-making enterprises, and the obstacles to "picking winners" rather than treating all U.S. businesses equally -- have all increased the difficulty of designing and implementing private sector projects. In some cases, complex and indirect approaches have been necessitated by the procedural obstacles to a direct approach.

See comment 2.

Now on pp. 35-36.

Now on pp. 40-41.

2. Promotion of U.S. Exports. The report may take an overly narrow view of A.I.D.'s potential impact on U.S. exports. It appears to interpret promotion of U.S. exports solely with identifiable links to particular export transactions, as with capital projects. This is evident in the discussion of support for U.S. exports (pp. 61-64), as well as that of short-term vs. long-term impacts (pp. 71-72). We do not accept the view that direct links to

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particular U.S. business transactions are the sole determinant of the real impact on U.S. business.

Now on p. 36.

Appropriate A.I.D. programs can, in our view, increase U.S. exports in short order where they support adoption of appropriate economic policies. This may be the case even when the stated purpose of the activity is, as for Jamaica (page 63), "focused primarily on helping indigenous companies become more competitive in international markets, rather than on promoting U.S. firms' involvement in developing countries." The economic growth and foreign exchange earnings from this and other A.I.D./Jamaica programs can have a material impact on U.S. exports in the relatively short term. U.S. exports to Jamaica more than doubled between 1986 and 1991, following A.I.D. efforts to encourage better economic management, trade liberalization, and private-sector development activities. Such increases in U.S. exports may well be more sustainable and permanent than those that come from support for particular export transactions.

See comment 3.

Now on pp. 3 and 11.

Now on p. 12.

3. Speed of Implementation. The draft report (page 4 and 18) appears inconsistent in its discussion of the issue of slowness of implementation of private sector programs. The report appears to attribute slowness of implementation to inadequate staff and lack of training. Nevertheless, it also notes (page 20) that the LAC Bureau moved quickly to implement such programs and to acquire sufficient staffing for the purpose. This would appear to conflict with the idea that training and recruitment are the bottlenecks; rather it suggests that country climate and mission priorities in other parts of the world are more important explanations of this slowness. This may call into question the recommendation that special recruiting and training efforts are the only bottlenecks to increased private-sector activity by A.I.D.

See comment 4.

Now on pp. 5 and 17-20.

4. Staffing Shortfalls. The paper makes much (page 8 and pp. 29-34) of the small number of private-sector specialists in the Agency, and proposes accelerated recruitment. The report ignores other sources of relevant expertise, particularly economists in the missions and A.I.D./Washington in designing and implementing such activities. In practice, A.I.D. economists have often played key roles in private sector programs, particularly in identifying impediments to private sector development, and linking policy reform objectives to private sector concerns.

See comment 1.

Now on p. 4.

5. Incorporation of Evaluation Results. The report notes (p. 6) that the Agency has moved away from traditional approaches to credit and export promotion because of a recognition of their ineffectiveness. Since these changes

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in direction flowed in part from A.I.D. evaluation reports cited later in the paper, it would seem appropriate to mention that A.I.D. has been explicitly drawing upon the lessons of experience to improve the quality of its programs.

See comment 1.

Now on pp. 4 and 28.

6. Development of credit programs. The paper faults A.I.D. for not developing a "specific alternative to address the needs of underserved populations" (p. 6 and 48). This is indeed correct, but the burden of our evaluation findings has been that no such specific alternative is likely to be found. Our evaluation findings suggest that specific programs for underserved populations can only be developed in the context of the financial market conditions and institutions of a particular country, and not produced, cookie-cutter fashion, from a single mold.

Now on p. 19.

See comment 1.

7. Staff Training. The report correctly notes (p. 33) that the most recent general course on private sector and development was held in 1990. This offering ended because the target pool of officers/applicants was declining and the original purpose of the training--to emphasize the importance of private sector programming--appeared to have been accomplished. Also, budget limitations and a decreased emphasis on traditional sectoral state-of-the-art training (e.g., agriculture, health) in favor of training on accountability and control have been factors.

Recommendations. A.I.D.'s response to the final report will address the recommendations and the actions we have planned or taken.

We appreciate the time and effort expended by your staff in preparing the draft report.

Sincerely yours,

RAAmes

Richard A. Ames

The following are GAO's comments on the Agency for International Development's letter dated October 22, 1992.

GAO Comments

1. The text of the report has been modified to reflect this comment.

2. Nothing in our report suggests that AID only affects U.S. business by promoting particular business transactions. The full range of AID's private-sector support is discussed in chapter 3. Chapter 4 focuses on one aspect of AID's private-sector development activity—movement into more direct promotion of U.S. business opportunities. This chapter also specifically indicates that AID officials have pointed out that improving the business environment in developing countries will indirectly create opportunities for U.S. business.

3. We stated that the LAC Bureau has been in the forefront of the agency's movement toward private-sector support but drew no conclusions about the speed with which the Bureau moved in this direction.

Our discussion of competing priorities in chapter 2 acknowledges that AID's ability to move toward a greater private-sector focus has been constrained by missions' being assigned a range of other goals to address.

We recognize that staffing and training difficulties are not the only obstacles to moving ahead with a private-sector focus. Moreover, in chapter 3 we point out that staffing and training decisions should be made after first obtaining consensus concerning the agency's mission for the post-Cold War era.

4. We acknowledge the role of economists. However, our review indicated that economists have different responsibilities and a different orientation than dedicated private-sector specialists. The economists are in a different career track than these specialists.

Major Contributors to This Report

National Security and International Affairs Division, Washington, D.C.	Ronald Kushner, Assistant Director Michael McAtee, Project Manager Anne Spitza, Evaluator Patrice Gordon, Evaluator
European Office	Daniel Burton, Assignment Manager Mary Needham, Site Senior Lacinda Baumgartner, Senior Evaluator
Far East Office	Raymond Ridgeway, Site Senior Dennis Richards, Evaluator

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