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USAID review completed

The Director of Central Intelligence

Washington, D.C. 20505

NIC 01262-85

8 March 1985

National Intelligence Council

MEMORANDUM FOR: Director of Central Intelligence

FROM:

[Redacted]

Acting National Intelligence Officer for Economics

25X1

SUBJECT:

US Foreign Aid Overview (U)

1. The Administration is requesting \$4.9 billion in foreign aid for FY86 net of economic assistance to Israel.

- o \$1.7 billion is programmed for development assistance--grant aid for 900 or so bilateral efforts in agricultural development, health, education, etc.
- o \$2.8 billion (excluding Israel which was budgeted for \$1.2 billion in FY85) is targeted for economic support fund assistance (ESF)--balance of payments support for countries of strategic interest.

2. The FY86 package reflects a continuation of modest shifts in the direction of aid that have taken place over the last four years.

- An increasing share of funds is going for strategic assistance as compared to project-related development aid.
- There is a geographic shift in aid away from Asia toward Central America, South America, and the Caribbean.
- The private sector initiative program (PRE) is targeted for increased funding, although the total--\$40 million--remains small.

ALL PORTIONS CLASSIFIED SECRET

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State Dept. review completed

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SUBJECT: US Foreign Aid Overview

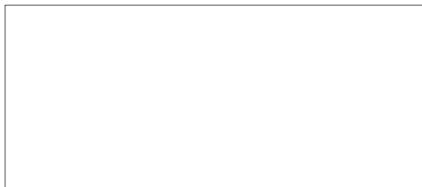
3. Despite these changes, the overall package shows the myriad of constraints that limit the flexibility to target foreign aid.

- The individual country items in the development aid section become deeply entrenched almost from inception and hence are difficult to reprogram. Programs for immunization, oral rehydration, housing, etc., once begun, of course, develop strong constituencies.
- Egypt and Israel still take up around half of the strategic ESF funding. When other large, strategic countries such as Pakistan and the Philippines are added, there is little flexibility for new initiatives without increasing the overall request.

4. The PRE, which was set up in 1982, is targeted to focus on projects such as capital market development, establishment of small venture funds, investment in small business, and technology transfer, over the next three years. The PRE effort seems to be bogged down for a lack of good ideas on how to use even the modest funds available. At present, the major onus for country-specific ideas falls on A.I.D. personnel in the field who likely find it easier to plug gaps in health care and to deliver food than to be creative in developing new business opportunities.

5. The enclosed tabs include:

- A. A listing of Development Assistance and Economic Support Funds trends, FY83 to FY86; a chart of development assistance by category; and trends in development assistance (exclusive of economic support funds) by region.
- B. A listing of Economic Support fund trends by country, FY83 to FY86.
- C. The FY86 Latin America-Caribbean program overview.
- D. The FY86 Bureau for Private Enterprise overview.



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Attachments:
Tabs A-D

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SUBJECT: US Foreign Aid Overview

Acting NIO/Econ, [redacted]

8 March 1985

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Distribution:

Original - Addressee

1 - Executive Registry

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A

AGENCY FOR INTERNATIONAL DEVELOPMENT
PROGRAM TRENDS: FY 1983 - 1986
(in thousands of dollars)

TAB A

	FY 1983 ACTUAL	FY 1984 ACTUAL	FY 1985 ESTIMATE*	FY 1986 PROPOSED
Functional Development Assistance:				
Agriculture, Rural Dev. & Nutrition	725,804	723,137	769,738	797,352
Population Planning.....	214,877	242,364	287,119	250,017
Health.....	139,536	128,195	243,250	146,427
Child Survival Fund**.....	--	--	25,000	[25,000]
Education & Human Resources Dev....	114,160	120,698	188,001	183,533
Selected Development Activities....	144,997	137,545	214,340	223,071
Science and Technology***.....	10,000	9,999	12,000	[13,000]
Sahel Development Program****.....	--	--	--	80,500
Private Enterprise Revolv.Fund*****	--	--	--	[20,000]

SUBTOTAL, Functional Accounts.....	1,349,374	1,361,938	1,739,448	1,680,900
Grants, included above.....	920,988	955,963	1,374,981	1,355,317
Loans, included above.....	428,386	405,975	364,467	325,583
Sahel Development Program****.....	92,044	106,619	106,839	--
Private Enterprise Revolv. Fund*****	--	12,000	18,500	*****
American Schools & Hospitals Abroad..	20,000	30,000	30,000	10,000
Miscellaneous Prior Year Accounts....	1,533	--	1,142	---
International Disaster Assistance....	103,248	207,478	99,025	25,000

SUBTOTAL, DA Program funds.....	1,566,199	1,718,035	1,994,954	1,715,900
Operating Expenses.....	356,983	375,260	396,435	390,694
Foreign Service Retirement and Disability Fund*****.....	36,537	40,620	41,864	35,562
=====				
TOTAL, A.I.D. Development Assistance	1,959,719	2,133,915	2,433,253	2,142,156
Economic Support Fund*****.....	2,971,462	3,146,166	4,213,223	2,824,000
=====				
TOTAL, A.I.D. ECONOMIC ASSISTANCE....	4,931,181	5,280,081	6,646,476	4,966,156

* Includes proposed supplementals -- Disaster Assistance for Africa (\$25,000,000) and Foreign Service Retirement Fund (\$1,302,000).

** Child Survival activities included within Health Account in FY 1986.

*** Requested in Selected Development Activities account in FY 1986.

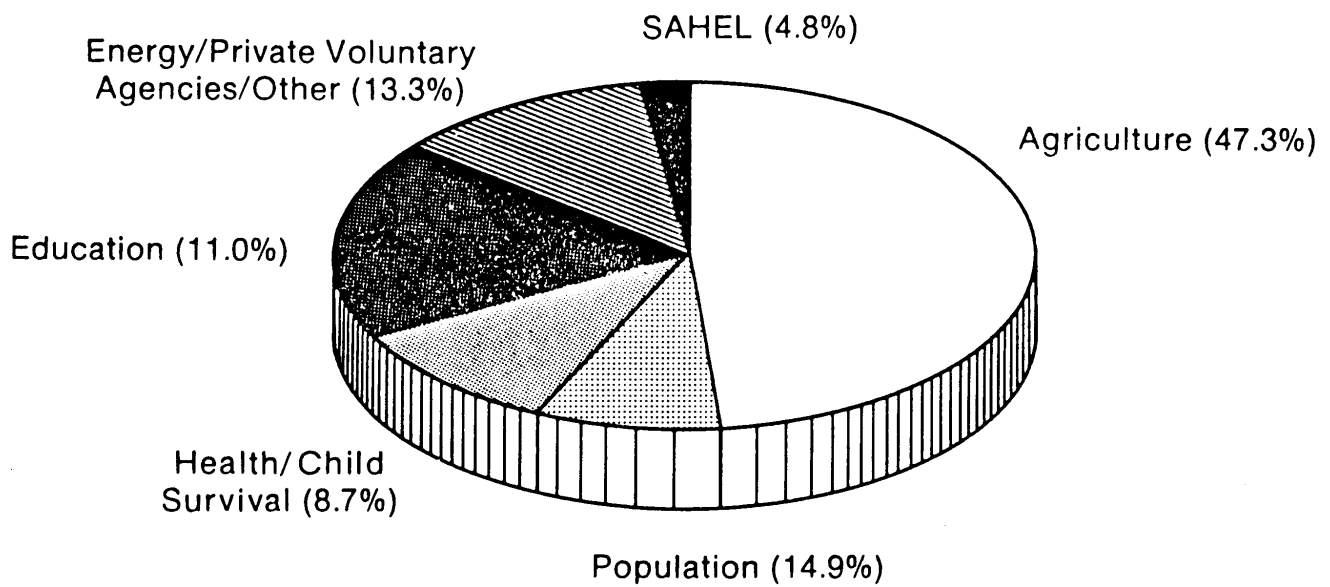
**** Requested under Functional Accounts beginning in FY 1986.

***** Requested under Functional Accounts; transferred to separate account for subsequent obligation.

***** FY 1986 level reflects amendment proposed for later transmittal to increase retirement-eligible age and reduce requirements for Retirement Fund from \$43,122,000 to \$35,562,000.

***** FY 1984 ESF level excludes \$10 million transferred to Peacekeeping Operations. FY 1985 ESF level includes \$15 million transferred from Functional Accounts for Zimbabwe.

FY 1986 Development Assistance Allocation By Functional Account



REGIONAL ALLOCATIONS OF DEVELOPMENT ASSISTANCE*

	FY 1983 ACTUAL		FY 1984 ACTUAL		FY 1985 ESTIMATE		FY 1986 REQUEST	
AFRICA	315	22%	340	23%	353	19%	358	21%
ASIA	392	27%	392	26%	442	24%	391	23%
LATIN AMERICA & CARIBBEAN	329	23%	295	20%	504	27%	461	28%
NEAR EAST	44	3%	52	4%	59	3%	52	3%
INTER-REGIONAL	361	25%	401	27%	485	26%	414	25%
TOTAL	1,441	100%	1,480	100%	1,843	100%	1,676	100%

* Includes amounts programmed for Functional Development Assistance accounts and Sahel Development Program. Inter-Regional amount includes Revolving Loan Fund.

Note: Details may not add due to rounding.

B

ECONOMIC SUPPORT FUND
PROGRAM TRENDS BY OBLIGATION - FY 83-86
(Dollars in Thousands)

<u>Region/Country</u>	<u>FY 1983 Actual</u>	<u>FY 1984 Actual</u>	<u>FY 1985 Estimated</u>	<u>FY 1986 Proposed</u>
AFRICA				
Botswana	10,000	800 <u>d/</u>	10,000	10,000
Chad	0	3,000	5,000	10,000
Djibouti	1,986	3,000	3,500	5,000
Kenya	30,000	21,000	30,000	35,000
Liberia	32,000	35,000	43,000	48,000
Madagascar	0	0	3,000	3,000
Mauritius	2,000	4,000	2,000	4,000
Mozambique	00	7,000	11,000	15,000
Niger	5,000 <u>a/</u>	5,000	5,000	7,000
Senegal	5,000	10,000	15,000	15,000
Seychelles	2,000	2,000	2,000	2,000
Somalia	21,000	35,000	30,000	35,000
Sudan	82,250 <u>a/</u>	120,000	114,000	115,000
Zaire	5,000 <u>a/</u>	10,000	10,457 <u>h/</u>	15,000
Zambia	15,483	21,322	15,000	22,500
Zimbabwe	60,000	40,000	28,000	15,000
So. Afr. Reg'l. Fund for Economic Policy Reform	14,393	15,996	23,000	30,000
Subtotal	<u>286,112</u> <u>a/</u>	<u>333,118</u> <u>d/</u>	<u>424,957</u> <u>h/</u>	<u>461,500</u>
ASIA				
Fiji	0	0	0	1,000
Pakistan	200,000	225,000	200,000	250,000
Philippines	50,000	50,000	140,000	95,000
Thailand	5,800 <u>b/</u>	9,115 <u>e/</u>	5,000	5,000
Subtotal	<u>255,800</u> <u>b/</u>	<u>284,115</u> <u>e/</u>	<u>345,000</u>	<u>351,000</u>
LATIN AMERICA AND CARIBBEAN				
Belize	10,000 <u>c/</u>	0	14,000 <u>i/</u>	4,000
Bolivia	0	0	0	10,000
Costa Rica	157,000 <u>a/c/</u>	130,000 <u>f/</u>	160,000	150,000
Dominican Republic	8,000 <u>a/</u>	34,000	95,000 <u>i/</u>	50,000
Ecuador	0	0	0	15,000
El Salvador	140,000	120,234	285,000 <u>i/</u>	210,000
Grenada	0	46,967 <u>g/</u>	8,033	0
Guatemala	10,000 <u>c/</u>	0	12,500	25,000
Haiti	10,000 <u>c/</u>	5,096	5,000	5,300
Honduras	56,000 <u>a/c/</u>	40,000	147,500 <u>i/</u>	80,000
Jamaica	59,350 <u>a/c/</u>	55,000	70,000	70,000
Panama	0	0	50,000 <u>i/</u>	40,000
Peru	0	0	0	45,000
Eastern Caribbean LAC Regional	35,000 <u>a/c/</u>	30,820	20,000	35,000
Cent. Am. Reg'l (ROCAP)	15,000 <u>c/</u>	2,000	2,000	2,200
Subtotal	<u>500,350</u> <u>a/c/</u>	<u>464,117</u> <u>f/g/</u>	<u>967,033</u> <u>i/</u>	<u>833,000</u>

<u>Region/Country</u>	<u>FY 1983 Actual</u>	<u>FY 1984 Actual</u>	<u>FY 1985 Estimated</u>	<u>FY 1986 Proposed</u>
NEAR EAST				
Cyprus	15,000 <u>a/</u>	15,000	15,000	3,000
Egypt	750,000	852,949 <u>d/</u>	815,000	815,000
Israel	785,000	910,000	1,200,000	k/
Jordan	20,000	20,000	20,000	20,000
Lebanon	9,560 <u>a/</u>	27,765 <u>d/</u>	78,232 <u>j/</u>	10,000
Morocco	0	7,000	15,000	22,500
Oman	15,000	15,000	20,000	20,000
Poland	0	0	10,000 <u>i/</u>	0
Portugal	20,000	40,000	80,000	80,000
Spain	12,000	12,000	12,000	12,000
Tunisia	5,000	1,500	20,000	22,500
Turkey	285,000 <u>a/</u>	138,500	175,000	150,000
Middle East Regional	12,480	14,004	15,000	22,000
Subtotal	1,929,040 <u>a/</u>	2,053,718 <u>d/</u>	2,475,232 <u>i/j/</u>	1,177,000 <u>k/</u>
OTHER				
Institute for Democracy	150	0	0	0
Italy	0	10,000 <u>d/</u>	0	0
Oceanographic Research	1,100	1,100	1,000	1,500
Subtotal	1,250	11,100 <u>d/</u>	1,000	1,500
Total	2,972,552 <u>a/b/</u> <u>c/</u>	3,146,168 <u>d/e/</u> <u>f/g/</u>	4,213,222 <u>h/i/</u> <u>j/</u>	2,824,000 <u>k/</u>

Note: Numbers are rounded.

- a/ Includes obligations from the FY 1983 supplementals as follows: Niger \$3 million; Sudan \$12.25 million; Zaire \$5 million; Costa Rica \$32 million; Dominican Republic \$8 million; Honduras \$30 million; Jamaica \$5 million; Eastern Caribbean \$6 million; Cyprus \$10 million; Lebanon \$9.56 million; and Turkey \$40 million.
- b/ Includes \$.8 million of the \$5 million transferred from State's Migration and Refugee Account for anti-piracy activities in the Gulf of Thailand.
- c/ Includes \$149 million from the FY 1982 CBI Supplemental distributed as follows: Belize \$10 million; Costa Rica \$75 million; Guatemala \$10 million; Haiti \$10 million; Honduras \$3 million; Jamaica \$2 million; Eastern Caribbean \$24 million; and LAC Regional \$15 million.
- d Includes deobligation/reobligations as follows: Botswana \$.8 million; Italy \$10.0 million from Syria pipeline; Lebanon \$.557 million; and Egypt \$102.949 million.
- e/ Includes \$4.115 million of the \$5 million transferred in FY 1983 from State's Migration and Refugee account for anti-piracy activities in the Gulf of Thailand.
- f/ Includes \$60.0 million made available from FY 1984 supplemental funds from PL 98-396.
- g/ Transfers of \$40.0 million from the FY 1983 no-year supplemental for Lebanon and \$15.0 million deobligated from the Syria pipeline were made to Grenada. Of the combined total, \$46.967 million was obligated in FY 1984 and \$8.033 million will be obligated in FY 1985.

- h/
i/ Includes estimated deobligation/reobligation of \$.457 million.
- i/
j/ Includes \$290.5 million made available from FY 1984 supplemental funds from PL 98-396 as follows: for Central America--Belize \$10.0 million, El Salvador \$90.0 million, Honduras \$72.5 million, Panama \$30.0 million, and Central America Regional (ROCAP) \$28.0 million; Other--Dominican Republic \$50.0 million and Poland \$10.0 million, for the Zablocki Clinic (of which \$6.0 million was obligated through the American Schools and Hospitals Abroad).
- j/
k/ Estimated obligations from the FY 1983 no-year supplemental for Lebanon. Israel to be submitted separately.

9

Latin America and Caribbean Program

TAB C

Strategy and GoalsA. Overview

A.I.D.'s strategy for addressing the problems outlined above is to support four broad approaches: (1) economic stabilization efforts in the near term, (2) basic structural reforms to permit a sustained economic recovery along more efficient lines, (3) efforts to overcome key constraints in the principal sectors in which A.I.D. is supporting programs promoting greater equity, and (4) programs to strengthen democratic institutions and human rights.

These approaches place more emphasis on policy reforms and management improvements than was the case of our programs in the 1970s. They also require more program assistance than project assistance in the short run. In addition, they involve more direct assistance to the private sector, both because the public sector's ability to absorb project assistance is limited by fiscal constraints, and because many private sector investments will be more productive in the short and medium terms. Still, the overall program is largely targeted on the needs of less advantaged populations, particularly by emphasizing productive employment opportunities as well as access to health care, education, and other social services. It is a growth-with-equity strategy designed to bring about broad-based national development and to strengthen support for democratic institutions.

Given the increasing magnitude of the assistance to the region over the last several years, A.I.D. has reviewed its capacity to manage, and the region's capacity to absorb, the increased level of resources. The review has concluded that the program does not currently exceed absorptive capacity. A comparison of levels of undisbursed balances under A.I.D. programs indicates that the "pipeline" of undisbursed funds has actually fallen significantly in relation to annual disbursements. This improvement in part reflects an increase in the importance of more rapid-disbursing assistance to the private sector.

1. Stabilization. A.I.D. continues to encourage LAC governments to correct their macroeconomic disequilibria through stabilization programs. Most have adopted such programs, and we are encouraged by the success with which some of them have been implemented. Under these programs A.I.D. has cooperated with the IMF to provide foreign exchange to help cushion declines in economic

activity while countries are laying the groundwork for economic recovery. These programs also make it possible for countries to reschedule their external debts, thus further relieving their balance-of-payments constraints. A.I.D.'s support for stabilization efforts has been made available through ESF assistance, which provides both an incentive for countries to take action (through appropriate conditionality) and a means to do so without incurring unsustainable social and political stress. Our goal is to have the LAC countries managing their external sectors on a current basis by eliminating arrearages and the need for further debt reschedulings and by restoring government fiscal equilibrium. Some countries may not be able to achieve effective stabilization until 1986. Meanwhile, the need for stabilization assistance continues to be great. Indeed, significant amounts of such assistance are essential for preventing a further general decline in living standards. Increased stabilization assistance, unlike increases in project assistance of the same magnitude, will not create serious absorptive capacity problems.

2. Structural Reforms. Economic growth will be faster, more employment-intensive, and more equitable for countries following a development strategy based on exports to external markets rather than one built around import substitution in highly protected domestic or regional markets. Export expansion provides the foreign exchange needed for imported materials and capital goods that generate higher productivity and increased living standards. Small economies with limited markets and narrow resource bases are especially dependent on imports, and most of the LAC countries we are assisting are in this category.

The enactment by Congress of the trade provisions of the Caribbean Basin Initiative (CBI) in 1983 has provided increased export opportunities to this area, but expansion of nontraditional exports also requires structural reforms to correct overvalued exchange rates, eliminate tariff structures that promote inefficiency and saddle potential exporters with high-cost inputs, and change policies that artificially overprice labor and underprice capital. Legal and institutional reforms are also needed to encourage investment. Better policies and a stable political environment could generate a real growth rate of nontraditional exports of 20% a year by the end of the decade. That growth would significantly increase job opportunities and generate revenues needed to extend the coverage of social services and to rebuild and expand the infrastructure required to sustain rapid economic growth.

The main elements of our strategy for achieving export growth and the associated increases in income and employment are:

- continuing our dialogue with cooperating countries on needed policy reforms and conditioning our assistance on appropriate structural adjustment;
- supporting the greater commercialization of agriculture, the sector employing the greatest number of people, particularly for small farmers;
- increasing the availability of credit for production in agriculture and industry, particularly small industry, and for exporting;

- providing technical assistance and training for small business operators;
- assisting investment and export promotion and strengthening private-sector organizations;
- assisting in the development of free zones, industrial parks, and other mechanisms which simplify infrastructure and administrative problems facing private entrepreneurs; and
- financing infrastructure construction and improvements, especially for stimulating small-farmer production.

3. Overcoming Sectoral Constraints to More Equitable Development. The labor-intensive pattern of economic growth to be fostered through structural reforms will help the rural and urban poor through the creation of jobs. However, targeted programs also are needed to ensure that the benefits of growth will be widespread. Opportunities for the rural poor can be increased by providing them with greater access to productive resources, including land and credit, as well as by eliminating price controls and other disincentives to production. Improved access to education and health care in both urban and rural areas, and greater efficiency in the provision of these services, would enable the poor to take better advantage of employment opportunities. Over the long term a reduction of population growth rates would make it easier for countries to meet their goals of reducing unemployment and raising living standards.

To address these sectoral constraints, A.I.D. will support programs to:

- provide access to primary education for at least 90% of all school-age children, male and female, in those A.I.D.-assisted countries where this has not been achieved (Haiti, Bolivia, El Salvador, and Guatemala);
- expand skills training, vocational training, and higher education programs to relieve key manpower bottlenecks to increased production and thus create more jobs both directly and indirectly;
- improve health conditions, especially in rural areas, through malaria control efforts, dissemination of oral rehydration therapy, training of nurses and other health workers, and technical assistance and educational programs in the field of nutrition, thus lowering infant mortality rates to 75 per thousand or less and child death rates to less than 7 per thousand by 1988 in all A.I.D.-assisted countries where this has not been achieved (Haiti, Bolivia, Honduras, Peru, and Ecuador);
- expand access to family planning information and contraceptive supplies, particularly through private institutions, to help bring about a reduction of the regional population growth rate from the 1982 level of 2.3% to 1.9% by 1988;
- improve the access of poor rural families to land through support for colonization, legal reforms to provide secure land titles, and financing for land purchases;
- provide better housing for low- and moderate-income families through technical assistance and Housing Guaranty loans; and
- assist refugees and displaced persons through programs that provide health services, educational opportunities, and productive employment.

4. Democratic Institutions and Human Rights. Economic growth will best support U.S. interests in the LAC region if it occurs in an environment in which governments permit their people to participate freely in local and national political processes; to form labor unions, cooperatives, and other voluntary organizations; and to have recourse to a judicial system that will administer justice fairly and speedily. Although the U.S. Government cannot dictate to governments how they should structure their political institutions and processes, we can provide our moral and financial support to those countries upholding democratic institutions and respecting human rights. A key element in U.S. economic assistance decisions in each country of the LAC region will be the degree of commitment of that country to free elections, independence of the judiciary, and respect for individual rights.

In support of this element of our strategy, A.I.D. will seek to strengthen the administration of justice through technical assistance, training, and material support for court systems, criminal investigative agencies, public prosecutors and defenders, justice ministries, law schools, and bar associations. A.I.D. will also provide assistance to improve the administration of elections. In addition, activities with a large number of private voluntary agencies will support the development of democratic institutions and processes by providing assistance to labor unions, cooperatives, women's organizations, and other participatory groups.

The process of democratization in the LAC region will also be supported by a major new training initiative, the Caribbean and Latin American Scholarship Program (CLASP), which will provide scholarships for study in the United States and in the region itself to approximately 7,830 individuals. Of this number, 7,063 participants are expected to be trained under the Central American Peace Scholarships project (CAPS) over the next five years, a direct response to the NBCCA recommendation that more Central Americans be provided training opportunities in the United States. An additional 3,000 or so participants will be funded under U.S.I.A. programs, bringing the total to more than 10,000. Training will focus on priority economic, social, and political development needs.

FY 1986 Highlights

A program level of \$1,293.9 million is proposed for FY 1986 in support of our objectives in the LAC region. Of this total \$869.1 million is destined for Central America, \$270.4 million for the Caribbean, \$127.4 million for South America, and \$27.0 million for LAC Regional programs. The paragraphs below summarize the distribution of these resources among functional categories of assistance and provide examples of new initiatives proposed for FY 1986.

To contribute to the objectives of economic stabilization and structural reforms, ESF resources of \$833.0 million are requested, primarily for balance-of-payments support to assist countries in overcoming continuing foreign exchange shortages, which are due largely to unfavorable market conditions for their major exports and to their reduced access to private capital markets. ESF assistance is being requested for all twelve countries and three regional

programs, a reflection of the depth and persistence of the current economic crisis in the LAC region. The foreign exchange provided by ESF will help sustain the flow of imports of raw materials and other inputs needed for productive business enterprises to maintain and eventually increase their levels of production and employment. Local currency generations will support the credit requirements of these enterprises, finance key public service and infrastructure projects, and bolster the efforts of private voluntary organizations, cooperatives and similar groups to meet basic needs.

In the Development Assistance (DA) program, for which a total of \$460.86 million is proposed, agriculture, rural development, and nutrition activities account for 41% of the regional total. The twin objectives of our strategy in this sector continue to be increasing production and generating the income needed by poor rural families to meet their basic requirements for food and other needs. To carry out this strategy our project activities are concentrated in four program areas: (1) improving agricultural productivity and diversification through research and technology transfer; (2) stimulating private sector investment in agribusiness and marketing; (3) expanding access to resources and influence through commercial land markets and farmer organizations; and (4) managing natural resources for sustained yields of water, crop production, forest products and grazing. All program resources provide a backdrop for a continued policy dialogue directed toward achievement of a competitive agricultural economy, regulated by market forces, that stimulates increased productivity by small commercial or potentially commercial farmers served by and supplying a thriving private agribusiness system.

New activities in FY 1986 include agricultural extension projects in Bolivia, Panama, and the Caribbean Region; support for the financing of land purchases by small farmers in El Salvador and Guatemala; agricultural marketing projects in Bolivia and Ecuador; small-scale irrigation projects in Haiti and Honduras; an agricultural sector recapitalization project in Peru; food crop and nontraditional export crop production projects in the Dominican Republic; and support for export-oriented agribusiness activities in Central America through the Latin American Agribusiness Development Corporation (LAAD), which since 1970 has been successfully expanding production and job opportunities for small farmers and landless workers in the region.

Our population planning programs (\$25.5 million, or 5.5% of the DA program) emphasize the use of private sector mechanisms. About 70% of our resources are planned for private sector programs, both commercial and voluntary. Our activities stress improved management capacity and enhanced self-reliance. New activities in FY 1986 include expansion of family planning services in Jamaica, particularly through contraceptive sales and private sector involvement, consistent with the country's population policy.

In health (\$46.9 million, or 10.2% of the DA program), A.I.D. is concentrating on assisting countries to expand basic health services by improving the efficiency of health services delivery through management improvements and cost recovery for services provided. We are also assisting in the development

of private sector channels for health services delivery. In addition, LAC regional and Central America regional projects focus on the extension of cost-effective health technologies and provide support to A.I.D. Mission initiatives in analyses of alternative financing mechanisms for health services, improved resource allocation, and the supply and distribution of essential drugs. A new Health Services Management Improvement project will be initiated in El Salvador, and in Guatemala we will support the establishment of a self-financing private sector organization that will provide quality primary health care to poor rural residents. An immunization project will be initiated in the Dominican Republic, and a new malaria control project will begin in Haiti.

Our efforts in education and human resources development (\$92.3 million, or 20% of the DA program) include partial funding for the major new regional training initiative (CLASP) described above. In countries where literacy rates are still low, we will also emphasize the expansion and improvement of primary education. Elsewhere priority will be given to productive skills training, management training, and the development of cost-effective outreach mechanisms. Projects to improve the quality, management and cost-effectiveness of primary education will be initiated in the Dominican Republic, Guatemala, and Honduras. Skills training and management training projects will begin in Jamaica, Panama, Ecuador, Honduras, and the Caribbean Region.

New selected development activities (\$107.5 million, or 23.3% of the DA program) will include support for export development programs in Belize, Bolivia, Peru, and the Central American region; a second loan to the Caribbean Financial Services Corporation to finance new private sector enterprises and the expansion of existing ones; and small business development projects in Belize and Ecuador.

Other U.S. resources which provide support for our objectives in the LAC region will be made available under the P.L. 480 program, which will provide much-needed foreign exchange to help the balance of payments. Local currency generations from the sale of P.L. 480-financed foodstuffs are integrated with our overall DA activities and are used as tools in our policy dialogue on macroeconomic and sectoral policies. The FY 1986 request for P.L. 480 resources is \$257.3 million, of which \$216 million is for Title I/III and \$41.3 million is for Title II.

Special Concerns

1. Women in Development (WID). An important aspect of A.I.D.'s assistance program in the LAC region is the policy of assuring that women are included in the development process by taking into account the actual and potential impact on women of our country strategies and programs. In this regard, the LAC Bureau of A.I.D. has developed a Women in Development (WID) Action Plan to

strengthen the emphasis on women's issues related to development. This plan includes sensitivity training for A.I.D. personnel, project design/review guidelines related to WID, an assessment of the impact of WID activities in the LAC region over the last few years, and a review of the specific program initiatives required to carry out the increased emphasis on WID concerns.

2. Evaluation. In FY 1984 the LAC Bureau received 79 evaluations from the field. In FY 1985 the Bureau proposes that 136 evaluations be performed by the A.I.D. Missions and to carry out itself a number of selected sectoral and inter-country impact assessments/analyses. Among these evaluations will be that of a major private sector effort in Haiti begun in FY 1982. In the Caribbean Regional program, an assessment of the private sector development plan will continue. In Peru A.I.D. will evaluate its efforts to promote private sector growth in agriculture. The Agency's efforts to promote policy reforms will be evaluated by many of the missions. In several countries -- Jamaica, the Dominican Republic, and Costa Rica -- missions will be carrying out evaluations within the context of the CBI. All these evaluations will test and analyze the validity of A.I.D.'s efforts to effect needed policy reforms through project activity. The Bureau's backstopping efforts will concentrate on the following priority tasks: improving communication and guidance to the field; advising missions of lessons learned from earlier evaluations; providing logistical support for mission evaluations, as needed; and improving the ratio between evaluations planned and evaluations actually carried out.

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TAB D

Bureau for Private Enterprise Summary

3.2 Present and Future Strategy: 1985-87

The 1985-87 period will be a transitional one for the Bureau as it moves from a start-up organization into a "mature" bureau with a well-defined portfolio and a strategy which effectively integrates it into the fabric of A.I.D.'s overall economic development efforts.

This transition phase will include a continuation of our two-fold mandate and our dual line/staff responsibilities (explained under Section 3. Bureau for Private Enterprise: Evolution of Strategy) as we work to position the Bureau for a long-term role in A.I.D. which will encompass: 1) continued experimentation with new programs/projects to incorporate private enterprise in development; 2) a heavy emphasis on becoming the technical resource within the Agency which supports regional bureau and USAID mission efforts to promote and incorporate private enterprise in development; and 3) the

full integration of our investment and grant portfolios in A.I.D.'s overall development strategy. In this section we will define our overall strategy for this three year period, while the following section will focus more specifically on FY 1986.

(1) Elements of the Strategy: Over the 1985-87 period, our strategy will include six major elements:

- . Product Development
- . Mission Support
- . Investments (Revolving Fund)
- . Cooperatives and Small Business Development
- . Grants
- . Evaluation

Each of these is briefly addressed below.

(i) Product Development: The Bureau will continue work in the six major "product" areas which have been the foci of our activities to date. Once again, they are:

- . Policy Dialogue and Change
- . Capital Market Development
- . Investment Promotion
- . Non-Traditional Export Promotion
- . Transfer, Adaptation and Commercialization of Technology
- . Training/Entrepreneurship Development

This transitional phase will see major Bureau efforts in policy dialogue and change, and capital market development. We will continue to support investment promotion programs while developing a longer-term Bureau (and Agency) strategy for providing assistance in such efforts. A focus will be agribusiness investment which includes farmer outreach services. We also plan to develop and implement a strategy for Bureau (and Agency) involvement in the commercialization of technology in LDCs. We will undertake no new initiatives in non-traditional export promotion, and in training/entrepreneurship development our efforts will be highly targeted, undertaken exclusively in conjunction with our mission support program.

(ii) Mission Support: Our mission support program will continue to focus on providing assistance in the product areas outlined above, as we increasingly emphasize our role as a technical resource for the rest of the Agency. Efforts will include a "rollout" of PRE-developed products to support

mission program/project development, that is an incorporation of successful PRE experiments into mission strategies. We will also develop, with USAIDs in selected countries, integrated PRE/USAID mission strategies which support private enterprise development.

(iii) Investments: Our investment strategy during this transition phase will focus on six major categories:

- Capitalization of IFIs (including cooperatives) for on-lending to micro-businesses, emphasizing the use of guaranties available through 1985 under the Productive Credit Guaranty Program (PCGP-Section 222A of the FAA);
- Investments which result in the privatization or divestiture of state-owned agribusiness or health enterprises;
- Establishment of small venture funds to finance the development of the technology necessary to process and market bio-mass, agricultural waste, or by-products of agricultural processing;
- Private agribusiness firms with extension services to small farmers who produce crops for processing and marketing by the firms;
- Capitalization of IFIs to fill gaps in host country capital markets to service small and medium business expansion, diversification, and export requirements; and
- Health maintenance organizations or other health outreach provided on a fee for services basis and the manufacture of health products focusing on poorer sectors of the population.

(iv) Cooperatives and Small Business Development: Integrating the cooperative program into the overall Bureau strategy will be a key objective during our transition phase. While continuing the core grant support, we will utilize the vast resources and network of the cooperative movement to enhance our mission support efforts. New, cooperative-related initiatives will be incorporated into the Bureau's product development efforts and, most importantly, the cooperative development organizations will be used as leverage into small business support activities. For example, as a way of promoting capital market development, we will work with credit unions and other cooperative organizations, encouraging them to

develop programs which provide financial and other services to small enterprises.

(v) Grants: During this period we will not initiate any new core grant programs as we continue to improve our management of those we currently support, which are:

- . International Executive Service Corps (IESC)
- . Joint Agricultural Consultative Corporation (JAC Corp)
- . Cooperative League of the U.S.A. (CLUSA)
- . Credit Union National Association (CUNA)
- . Agricultural Cooperative Development International (ACDI)
- . Cooperative Housing Foundation (CHF)
- . National Rural Electric Cooperative Association (NRECA)
- . Volunteers for Overseas Cooperative Assistance (VOCA)

PRE involvement in other major grant activities including the Institute for Management Education of Thailand (IMET) and the Technical/Vocational Training Institute of Peru (TECSUP) will be gradually phased out over this period. We will focus only on grant projects which will enhance our product development efforts and which may be utilized in our mission support program. Similarly, our grant/loan combination projects will be limited to those where the grant portion provides an institution building element which is fundamental to project success. We have found major grant projects to be both resource and staff intensive and because of Bureau constraints in these two areas we will not become involved in such activities without long-term mission management involvement and financial support.

(vi) Evaluation: With a growing portfolio of highly innovative and experimental grant and loan projects, we recognize the critical importance of evaluation as a way to: 1) identify and correct problems in the design or management of existing projects; 2) provide useful guidance in the design of future Bureau projects; and 3) develop and provide guidance to the rest of the Agency in the development of future private enterprise related projects. The 1985-87 period will be one of both intensive and extensive evaluation of projects in the Bureau's portfolio.

These six elements will constitute our transition strategy during the 1985-87 period. As we build on the base developed

in our start-up phase, we will increasingly emphasize management of our existing portfolio and improved targeting of our future program/project and mission support activities.

(2) Implementation: Effective management of both ongoing and new program/project initiatives will receive considerable attention from the Bureau during this three year phase. We recognize the severe limitations facing the Bureau given its limited resources, particularly staff, in trying to manage effectively our overall portfolio. To be successful we must utilize all available resources, including PRE staff and other outside resources.

(i) PRE Staff: Effective management of a complex and growing portfolio of activities will require:

- Close supervision of the assets of the Revolving Fund both in terms of project and funds management;

- Close coordination between grant activities (including the Cooperative and other core grant programs) and mission support efforts to assure complementarity; and

- Effective utilization of the new regional offices in both the field management of PRE-funded projects and the implementation of mission support activities.

Whenever possible, but especially with regard to new grant projects, we will emphasize the need for close mission management involvement.

(ii) Other Resources: The small size of the Bureau's staff will require increased reliance on resources external to the Agency for project design, development and supervision with overall management guidance provided by the Bureau. The following represent some of the resources available to help assure effective project portfolio management:

- Grantee organizations (including IESC, JAC Corp. and the Cooperatives), under general PRE management guidance, will be expected not only to supervise their own activities but also to provide increased attention to supporting USAID missions.

- We will continue to use the extensive resources in the U.S. business community to assist in our project management efforts, including resources such as the Conference Board, the Young Presidents' Organization, the

National Council for International Health, the U.S. Chamber of Commerce and others.

Where appropriate, we will call upon the PVO community (e.g. Partnership for Productivity, ACCION-Aitec, FMME) and universities to assist us.

Our utilization of outside contractors and consultants, IQC firms and 8(a) (minority businesses) will also increase.

The Loan Review Board and, soon to be established, Technology Review Board will be called upon to help improve our management by their early screening of potential projects.

While numerous resources (especially external) are potentially available, the Bureau's task will be to organize them in such a fashion that facilitates overall management of our diverse portfolio.

4. FY 1986: Strategy Focus (\$33.26 million)

FY 1986 will be the second year in our three year transition phase during which we limit new initiatives, consolidate major grant activities, focus on improved management of our existing portfolio, and position the Bureau for its long-term private enterprise support and experimentation role in the Agency. This section will address the Bureau's FY 1986 foci within the six elements of the overall three-year strategy outlined in the preceding section.

4.1 Product Development (\$1.0 million)

During FY 1986 we will continue our heavy emphasis on policy dialogue and change, and capital market development. Implementation of a focused investment promotion effort will be initiated as well as our commercialization of technology strategy. Non-traditional export promotion will be de-emphasized and training/entrepreneurship development efforts will be undertaken only in conjunction with mission support activities.

(1) Policy Dialogue and Change (\$300,000): During this fiscal year we will focus on implementing, in selected countries and through our mission support efforts, the policy/guidance we develop in the area of privatization/divestiture of state enterprises. Early experiences in Costa

Rica, Peru, the Philippines and Malawi will result in guidance prepared by the Bureau which we will implement in 1986 privatization efforts and for which we will encourage Agency-wide acceptance. In so doing we will collaborate closely with the rest of A.I.D., in particular the numerous USAID missions that are becoming involved in this subject area, and other donors.

We will also play a major role in implementing policy on A.I.D./IFI relationships which will be better defined through a Private Enterprise Council sponsored analysis conducted during 1985. This analysis will result in recommended guidance on A.I.D./IFI relationships, including a broad range of IFIs such as development banks, commercial banks, investment banks, leasing companies, venture capital firms, export trading companies and other intermediate institutions which may provide financing and other services to small businesses.

(2) Capital Market Development (\$300,000): Efforts will continue to focus on strengthening private, host country institutions, enabling them to mobilize local and international capital market resources for financing indigenous private business development and expansion. Our mission support efforts will also result in capital market development including, for example, possible assistance in the Philippines to restructure their venture capital industry, and guidance on regulating the investment of pension fund assets in Indonesia.

(3) Investment Promotion (\$100,000): Evaluations during 1985 of several PRE-supported investment promotion activities (including our feasibility study financing program) will result in the development and implementation, largely through our mission support program, of a Bureau strategy for support to LDC investment promotion. (The future of the Bureau's feasibility study financing program will await completion of the in-depth evaluation which will be conducted during FY 1985.) This strategy will incorporate the valuable lessons learned from our past efforts, as well as the methodology developed by SRI International its PRE-funded Investment Promotion Analysis.

(4) Commercialization of Technology (\$200,000): During 1986 we will identify targets of opportunity which will allow

us to begin implementation of our strategy developed during FY 1985. Our Technology Review Board will be established and we will utilize it as a screening mechanism of the potential opportunities identified.

The implementation of our major HEALTHLink project with the Program for Appropriate Technology in Health (PATH) will be in its second full year of operations. This project is designed to test whether certain health-related products, developed in the United States, can be successfully manufactured and marketed by LDC businesses on a commercial, for-profit basis. This program focuses on opportunities in Thailand and Indonesia. If successful, it is an activity that may be expanded and replicated elsewhere.

(5) Non-Traditional Export Promotion (No Funding Required): PRE efforts in this area will not focus on new product development during 1986, but rather, through mission support, on the "rollout" of existing products, particularly on the development of free zones to encourage export-oriented investment. We will actively support, under guidance from the analysis completed of A.I.D./IFI relationships, the development of LDC based export trading companies.

(6) Training/Entrepreneurship Development (\$100,000): PRE efforts in this area will focus on mission strategy support. Opportunities include assistance to existing advanced management training/business schools in Peru (ESAN) and Thailand (ABAC) through a strengthening of curriculum and the development of "sister" institution relationships with similar U.S. schools/universities/institutes.

4.2 Mission Support (\$2.0 million)

A major part of the Bureau's strategy during FY 1986 will be to enhance and increase, while better focusing, our mission support efforts. To accomplish this we will:

- Emphasize our role as a technical resource for USAID missions;
- "Rollout" PRE-developed products in support of mission program/project development efforts;
- Focus assistance in PRE product areas; and

us to begin implementation of our strategy developed during FY 1985. Our Technology Review Board will be established and we will utilize it as a screening mechanism of the potential opportunities identified.

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- "Rollout" PRE-developed products in support of mission program/project development efforts;
- Focus assistance in PRE product areas; and

Develop and implement an integrated PRE/USAID strategy for private enterprise development in selected countries.

These are more fully explained below.

(1) Technical Resource: We plan to continue our strategy of responding to USAID mission requests for PRE assistance in private enterprise constraints analyses, business problem solving and program/project development efforts. We will target our efforts to complement activities underway within each regional bureau and to ensure effective utilization of our limited resources we will increasingly require cost sharing on assistance provided.

(2) "Rollout" PRE Products: Part of the mission support effort will be the continued "rollout" of successful PRE-developed products. Examples include the SRI "Investment Promotion Analysis," The Free Zone Authorities Services, Inc. "Guide to the Development of Export Processing Zones," and our Feasibility Study Financing Program. In addition, our core grant activities and any new grant initiatives will increasingly focus on providing support required by missions.

(3) PRE Product Area Focus: All support will fall within the six product areas in which the Bureau focuses.

(4) Integrated PRE/USAID Strategy: In selected countries we will develop integrated private enterprise development and support strategies. The first two countries for this effort will probably be Thailand and Kenya. We will actively participate in the development of strategy, and assist in both project development and funding. These will become models for effective USAID/PRE collaboration which we will endeavor to replicate with other USAID missions over the long-term.

4.3 Investments (Revolving Fund) (\$17.0 million loan*; \$760,000 grant)

FY 1986 will see a major emphasis on three of the six investment priorities outlined for the three year, 1985-87 period. (This does not mean that investments will not occur in the other three priority areas, however, special attention will be focused on the three selected.) Where required, feasibility

* The additional \$3.0 million required to reach the \$20.0 million authorized level will come from projects jointly funded with selected USAID Missions. Their respective funding contributions to these projects (up to \$3.0 million) will go into the Revolving Fund.

studies to determine project viability and institution building assistance will be provided on a grant basis. The three priority areas are:

- Capitalization of IFIs for on-lending to micro-, small, and medium sized enterprises;
- Establishment of small venture funds for technology development and commercialization; and
- Support to agribusiness firms with extension services to small farmers.

These are explained in more detail below:

(1) On-lending to Micro-, Small and Medium Scale Enterprises: Focus in this area will be on the utilization of cooperatives as a means of extending financial and other services to these enterprises. A cooperative-related project opportunity has been identified and may be pursued in Panama utilizing The Cooperative Organization of Latin America and the Caribbean (COLAC). This would make resources available for micro-enterprises through the extensive credit union system in Latin America.

(2) Venture Funds for Technology Development and Commercialization: Opportunities for pursuing such efforts appear good in Thailand (in conjunction with our joint, integrated strategy efforts), India, and with selected U.S. entrepreneurs undertaking technology development and commercialization investments which target LDC markets. We also may consider an expansion to our existing HEALTHLink project to countries other than those now targeted which are Indonesia and Thailand.

(3) Agribusiness Firms with Extension Services: This represents an excellent opportunity for collaboration with USAID missions, some of which have expressed considerable interest in this concept as a result of PRE-funded case studies by Business International on successful projects which had major agribusiness firms providing support to and serving as the market for satellite farm operations. Numerous opportunities have been identified, among them a cocoa nucleus estate project in Panama, a passion fruit processing operation in Kenya, a winter vegetable project in the Dominican Republic, and an oil plant processing facility in Indonesia.

Increased attention will also be focused on portfolio management to assure effective and timely drawdowns and use of revolving fund resources on existing projects, while improving our funds management capability to assure maximum return on all RF assets.

4.4 Cooperatives and Small Business Development (\$6.0 million)

While continuing the core grant support, we will incorporate new cooperative initiatives into the overall Bureau product area strategy and increasingly utilize cooperatives as leverage for developing small business support activities. The current Cooperative Development Organization (CDO) strategy includes movement, with A.I.D. assistance, toward developing trade programs, credit and financial systems for micro- and small enterprise support, and increased capabilities within the CDOs for development planning. This strategy is based on the assumption that cooperatives are economic institutions--businesses--and the services to be provided from national and international level cooperative organizations should be business support services. The program has become more pragmatic and business-oriented, and is taking steps which will lead to eventual self-sufficiency for many CDO-sponsored activities.

Through the centrally funded cooperative program, A.I.D. will continue to give core grant support for six U.S. cooperative development organizations to pursue new initiatives and to provide a means for small farmers and entrepreneurs to meet mutual needs in such areas as credit, savings, housing, storage, purchasing, processing, marketing and electricity. Those core grants are:

(1) Cooperative Housing Foundation (CHF) (\$600,000): The CHF provides technical assistance to LDC cooperative housing organizations, and develops methods of involving U.S. cooperatives in helping to resolve the shelter-related problems and needs of LDCs.

(2) Cooperative League of the USA (CLUSA)(\$930,000): Our grant helps CLUSA maintain and expand its development expertise to assist cooperative development in LDCs.

(3) Credit Union National Association (CUNA) (\$950,000): CUNA helps in the planning and management of LDC credit union projects and coordinates the National Association's efforts to promote credit union growth in LDCs.

(4) National Rural Electric Cooperative Association (NRECA) (\$710,000): The PRE grant permits NRECA to assist LDCs in establishing rural electric systems and cooperatives to benefit the rural poor.

(5) Volunteers for Overseas Cooperative Assistance (VOCA) (\$740,000): VOCA provides specialized short-term assistance to LDC cooperatives and related agencies for the transfer of essential managerial and technical expertise.

(6) Agricultural Cooperative Development International (ACDI) (\$780,000): Utilizing our grant, ACDI provides expert services from U.S. agricultural communities and farm credit cooperatives to small and medium scale farmers in developing countries.

In addition to the core grants, A.I.D. will continue to provide cost-sharing grants for project activities with U.S. cooperatives allowing them to initiate programs with cooperatives in LDCs.

(7) Cooperative Cost-Sharing Grant Project (\$390,000): This shared cost support enables U.S. cooperatives to establish and strengthen the development capabilities of their LDC counterparts and increases the ability of U.S. cooperatives to attract and channel additional development funding from other sources. A.I.D. has on-going cost-shared grants with Land O' Lakes, League Insurance, the U.S. Feed Grains Council, and ACDI.

Implementation of three new initiatives will be expanded in FY 1986. These are:

(1) CLUSA International Trade Development Program (\$600,000): CLUSA, working primarily through its international trade division, will provide technical assistance and trade-related services to cooperatives and small businesses in the developing world to assist them in export promotion and market development efforts. This will be the second year of a planned three year PRE support program to provide a broad range of trade services to LDC cooperatives and small businesses.

(2) Cooperative Financing Facility (\$150,000): We will work on implementing the findings of the CDO finance task force seeking ways to use existing institutions such as cooperative banks, credit unions and small enterprise lending programs to meet the credit needs of LDC cooperatives and small businesses and, in so doing, strengthen and broaden LDC capital markets. The objective of this initiative is to make constructive uses of existing institutions, reduce currency exchange costs and risks, and reach not only cooperatives but also the broader sector of small enterprise. A potential project to initiate the experimental effort may be pursued with COLAC in Panama. We will also work with the CDOs to develop increased credit

facilities to reach small entrepreneurs at the lowest level of the productive economy, thereby expanding LDC capital markets. These facilities will bring together experience gained over recent years in uncollateralized lending to individuals and take advantage of the global structure of credit unions as a delivery system which can become, over time, a global small enterprise bank. This will expand the work begun with COLAC in Panama.

(3) Small Business Development (\$150,000): During FY 1986, the small enterprise sector will be directly addressed through two major program efforts. The feasibility of an approach to small business development through small business centers or associations is being examined and the viability of a program, in selected countries, will be explored during 1986. We will try to capitalize on the experiences of small business development centers in the U.S. and, with adaptation and modification as required by the host country environment, transfer this technology to selected LDCs. In addition, Nationwide Insurance has invested in Global Exchange, Inc. to work with LDC cooperatives on developing products which have high export potential. PRE will support this activity which complements the CLUSA international trade development program.

Other activities for which no additional funding is required in FY 1986 are:

(1) Development Planning: A CDO study to research cooperative development methodology and experience has been completed. This is a priority area with the CDOs and included an A.I.D.-sponsored week long meeting of international cooperative leaders to review the results. The CDOs will produce a comprehensive strategy paper including project guidelines to facilitate future planning and evaluation and to maximize program impact.

(2) Farmer-to-Farmer Program: Under Section 406(a)(1) and (2) of P.L. 480, a Farmer-to-Farmer Program has been authorized for some time. A.I.D. has been charged with implementing the program which involves sending U.S. farmers to provide short term technical assistance to LDC farmers. Pilot programs in the Caribbean and Latin America are being undertaken by both VOCA and Partners of the Americas. An evaluation of their activities during 1986 will determine the future direction of the program.

The Bureau is making considerable progress, in a short time period, integrating the cooperative program into the overall

PRE strategy. The new initiatives are quite consistent with the Bureau's product areas, in particular capital market development, export promotion and technology transfer. Because cooperatives represent a vast resource, we intend to utilize them increasingly in our mission support program and we will encourage them, as in the case of IESC, to market the services they can provide directly to USAID missions.

4.5 Grants (\$6.5 million)

Beyond the cooperative program and our support to the IESC (\$6.0 million) and the JAC Corp (\$500,000), we plan no major new core grant activities for FY 1986. By this fiscal year we should be almost entirely disengaged from major existing grant projects, especially TECSUP and IMET. As previously mentioned, any new grant projects will only be undertaken in direct support of mission strategies and programs, or to complement (through institution building) our investment activities.

4.6 Evaluation (Funding included in project budgets)

We include evaluation as a major part of our strategy because of its critical importance if our overall program efforts are to have and maintain their credibility. We believe that an experimental and innovative program is only effective if the lessons learned are reflected in project re-design and future programming. A major Bureau Evaluation Plan is currently under development which will result in several, as yet undetermined, evaluations of ongoing projects during 1986. In addition we are and will continue to insist on the development and inclusion of evaluation plans for all new projects which receive PRE support.

In sum, our FY 1986 plan calls for:

- Product development in selected areas;
- Mission support which targets on PRE-developed products and integrated strategy development with selected USAIDs;

New investments and institution building assistance in three areas and improved management of the existing portfolio;

- Leveraging of cooperatives into small business development, supporting PRE's product areas with the development of several new initiatives;
- Phasedown of our major grant program, limiting support to existing core grant activities and projects in direct support of missions, and grants for institution building to complement our investments; and
- An emphasis on evaluation to improve existing projects and guide future project design.