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**Memorandum To  
The Development Assistance Committee**

United States International Development Cooperation Agency

Agency For International Development

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1983 U.S. ANNUAL AID REVIEW

MEMORANDUM TO THE DEVELOPMENT ASSISTANCE COMMITTEE

JULY 1983

## 1983 UNITED STATES ANNUAL AID REVIEW

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## UNITED STATES ANNUAL AID REVIEW MEMORANDUM

### I. Major Policy Orientations

#### A. Economic Assistance Priorities

Although developing countries receive the bulk of their foreign economic resources from non-ODA sources, concessional assistance is often a critical factor, particularly for lower income developing countries. The United States remains committed to supporting long-term economic development with the majority of U.S. assistance directed toward lower income countries.

The Administration's economic assistance policies are based upon two fundamental propositions. First, the economic progress of developing countries is in the long-term political, security, and economic interest of the United States. The economic progress of developing countries is of importance to the maintenance of a stable world and a well functioning international economic system. Support for development also expresses the traditional humanitarian concerns of the American people for the plight of the poor--men, women, and children.

Second, economic growth and development in developing countries depends fundamentally on their own efforts and policies. Development cooperation in all its forms--from outright grants through the important stimuli provided by trade and open markets--while often of great significance to development can never be a substitute for a developing country's own efforts. U.S. assistance will be concentrated in support of those countries that adopt effective policies for long-run development. Such policies should rely on market mechanisms to a greater extent than has been the case in the past and should provide a more favorable climate for private enterprise.

Four key emphases cut across all programs of U.S. bilateral economic assistance. Aid programs and projects, concentrated in sectors where the United States has special expertise -- food and agriculture, energy, human resources development -- are designed and implemented consistently with these four emphases. These are:

##### 1. Policy Dialogue

The United States will use its assistance to support an aid-recipient's own economic policies when they are

deemed effective, and to promote their improvement when they are deemed less than effective for long-term economic development. Our aid program has a history of concern not only with the efficacy but also with the equity of LDC governmental policies, and this entails a concern for policy reforms agreed upon in discussion with recipient policy makers (policy dialogue).

Governmental policies set the rules-of-the-game for institutions as well as individuals; and, consequently, progress depends upon suitable policies in developing countries. Misguided policies blight development. Sound policies speed development. Agricultural pricing policies are a clear example: farmers tend to revert to subsistence production in the absence of fair prices. Feeding the poor, however, requires more than subsistence production. Fair competitive market prices are needed for farmers to maximize production. Governmental policies should adjust to that practical reality.

## 2. Private Enterprise and Market Forces

Free and competitive markets offer the best means of achieving the objective of helping LDCs meet the basic human needs of their poor majority through sustained, broadly based economic growth. There is empirical evidence that rapid economic growth typically is accompanied by reductions in absolute poverty. And, over time, allocation of resources through competitive markets typically is fairer and more equitable than allocations made by government. Therefore, the United States will seek to promote open and competitive LDC markets and to support LDC policies that permit the exercise of private sector initiative and ingenuity.

## 3. Institutional Development

Effective development institutions enhance a country's ability to marshal its own human and other resources for development, help men and women gain access to the skills and the services needed to increase their productivity and income and increase the country's absorptive capacity. The effective use of aid resources and self-sustaining, long-term development depend upon effective local institutions.

It is U.S. policy to help developing countries establish and strengthen public and private institutions in support of mutually agreed, priority development objectives.

4. Technical Development, Transfer, Adaptation, and Extension

Experience has taught that dynamic economic growth requires the indigenous capacity both to develop and to apply a continuing stream of innovations designed to increase productivity, employment, and incomes, and also to evaluate and adapt technologies transferred from industrialized countries. The United States is expanding its efforts to strengthen the technological capabilities of developing countries with major emphasis on research and development in all priority sectors of aid concentration.

B. The Commission on Security and Economic Assistance

In February 1983 the Secretary of State announced the creation of a Commission on Security and Economic Assistance which will thoroughly review the rationale and objectives of United States assistance.

While there have been other commissions to study foreign assistance in the past, this one differs from its predecessors in two key respects. First it has been charged with examining more than just foreign aid; it is to analyze the totality of U.S. foreign economic, political, and security interests in relation to the need for U.S. economic and security assistance. Second, the Commission is not a "Government" board but one which only includes Congressional and private sector (business, labor and academic) members. The Commission's staff includes experts drawn from the private sector, foundations, universities, Congress, and the Executive Branch. The Commission operates independently and outside of the State Department and A.I.D. By having Congressional and private sector leadership in charge of the study it is hoped that the Commission will be able to build a broadly-based consensus on how the United States should structure its foreign assistance program. Upon completion of its analysis (by October 1983) the Commission will present recommendations to the President, the Secretary of State, and the Congress.

II. ODA Volume, Composition, and Financial Terms

Net (ODA) disbursements of \$8,202 million in 1982, were up 42 percent from the 1981 total level of \$5,782 million. ODA disbursements as a percent of GNP were 0.27 percent in 1982 as compared to 0.20 percent in 1981.

Both bilateral and multilateral ODA flows were up but the largest increase was clearly in U.S. contributions to Multilateral Development Banks (MDBs). U.S. ODA contributions to MDBs were up \$1,839 million while bilateral ODA increased only \$544 million. An analysis of bilateral ODA disbursements shows that almost all of the increase was in bilateral grants from the Economic Support Fund. The large increase in multilateral flows was due to erratic disbursement timings. Present indications are that 1983 multilateral disbursements will be substantially lower and thus total ODA also will be down.

In recent years U.S. contributions to MDBs (measured on an issuance basis) have tended to be bunched creating large year-to-year swings in multilateral ODA disbursements. In addition, since DAC data are on a calendar year basis, U.S. fiscal year timing for issuance of letters of credit can create even further shifts in DAC calendar year data. For example, FY 1982 MDB disbursements were held up until the appropriations bill was signed on December 29, 1981. When it was signed money was not available to the MDBs until January 1982, when \$1.2 billion was provided. If that large disbursement had taken place in December the total 1981 ODA level would have been closer to the long-term trend and CY 1982 would not have been abnormally high. A similar CY/FY slip took place at the end of CY 1979. (See Table A.)

On the commitments side total ODA commitments of \$8,223 million were 14 percent ahead of last year. Within that total, bilateral grants were up 16 percent due mainly to an expansion in grants under the Economic Support Fund (ESF). Bilateral loan commitments of \$1,441 million were 14 percent above the 1981 level.

Bilateral grant and grant-like commitments of \$4,662 million were \$746 million greater than gross bilateral grant disbursements, which resulted in an increase in the grant pipeline. This continues the trend of the last seven years--both bilateral grant disbursements and commitments have increased but commitments have exceeded disbursements by some \$400-500 million a year adding to the pipeline. This build-up in the grant pipeline means that grant disbursements should continue to increase during the next few years, even if commitments start to level off. In contrast, 1982 loan commitments were lower than gross loan disbursements.

Table A

UNITED STATES ODA DISBURSEMENTS TO MULTILATERAL  
DEVELOPMENT BANKS  
(\$ Millions)

By U.S. Fiscal Years and Calendar Years

FY 1977	931	CY 1977	1393
FY 1978	1,104	CY 1978	1,699
FY 1979	1,617	CY 1979	60
FY 1980	1,481	CY 1980	1,844
FY 1981	997	CY 1981	634
FY 1982	1,262	CY 1982	2,473

By Quarter

	<u>Jan./Mar.</u>	<u>Apr./June</u>	<u>July/Sept.</u>	<u>Oct./Dec.</u>	<u>Total</u>
1977	156	251	25	961	1,393
1978	74	50	19	1,557	1,699
1979	41	-	19	-	60
1980	1,075	16	390	363	1,844
1981	126	-	508	-	634
1982	1,262	-	-	1,211	2,473

NOTE: Data are on the DAC basis, which differs from U.S. budgetary definitions. Disbursements on the DAC basis represent direct payments or letters of credit issued by the U.S. Treasury. Outlays on the U.S. budget basis include direct payments and payments against the letters of credit.

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This is the fourth year in a row that loan disbursements have exceeded commitments and the loan pipeline has declined. Given present budgetary plans and a declining loan pipeline, loan disbursements in 1983 and beyond will probably level off.

By the end of 1982 the United States was starting to move out of the trough of a deep and prolonged recession. The Administration and Congress made strenuous efforts to reduce Government spending in order to control the budget deficit. Foreign assistance programs were particularly vulnerable in this economic environment. "non-discretionary" expenditures for social welfare programs (such as unemployment compensation) rose significantly as economic conditions deteriorated. "Controllable" programs, including those in foreign assistance had to bear the brunt of budget stringency. However, even when budget cutbacks in pursuit of fiscal austerity had to be made by the President, foreign aid fared relatively well compared to other parts of the Federal Budget.

Table B provides the U.S. Economic Development Budget for FY 1981 to 1984. It is interesting to note that FY 1982 was 16 percent above FY 1981 and included a 15 percent increase in bilateral assistance and a 22 percent increase in multilateral assistance. For FY 1983 and 1984 there is continued growth in total authorizations, with bilateral aid declining slightly and multilateral authorizations increasing 22 percent in FY 1983 and 3 percent in FY 1984.

### III. Public Opinion and Information

The Agency for International Development (A.I.D.) is the U.S. Government agency responsible for public information work on development cooperation. For many years AID operated a traditional public information service. However, there is now a new program of "Development Education" which has been authorized in an amendment to the Foreign Assistance Act. Under this authority, AID has allocated \$0.7 million in FY 1982 and \$1.0 million in FY 1983 for the purpose of increasing public awareness of the factors relating to world hunger and poverty and facilitating public discussion and analysis of these issues. The Development Education Program is implemented entirely through non-governmental organizations.

Implementation of AID's Development Education Program began in late FY 1981. A.I.D. awarded contracts to plan a series of media roundtables and to establish links with various educational associations. The purpose was to develop and promote materials which would integrate consideration of development issues into the U.S. educational curriculum. A competitive,

TABLE B

IDCA Comprehensive Development Budget  
(budget authority in \$ millions)

	FY 1981 (Actual)	FY 1982 (Actual)	FY 1983 1/ (Estimated)	FY 1984 (Request)
<b>BILATERAL ASSISTANCE</b>				
AID Development Assistance 2/ Trade and Development Program (TDP)	1711.6 (5.5) 3/	1880.5 6.9	1838.5 10.5	1889.9 22.0
Overseas Private Investment Corporation (OPIC)	4/	4/	4/	4/
Food for Peace (PL 480) 5/ Economic Support Fund and Peacekeeping Operations	1228.9	1000.0	1028.0	1052.0
Peace Corps	2134.5	3065.0	2998.4	2995.2
Inter-American Foundation	105.5	105.5	109.0	108.5
Refugees	15.8	12.0	12.0	10.7
	473.7	423.0	395.0	344.5
Subtotal, BILATERAL	5670.0	6492.4	6391.4	6422.8
<b>MULTILATERAL ASSISTANCE 6/</b>				
International Bank for Reconstruction and Development	32.8	146.9	126.0	109.7
International Development Association	520.0	700.0	945.0	1095.0
International Finance Corp.	--	14.5	--	--
Asian Development Bank	24.8	4.7	.2	13.2
Asian Development Fund	114.8	116.1	131.6	147.1
African Development Bank	18.0	--	--	18.0
African Development Fund	41.7	58.3	50.0	50.0
Inter-American Development Bank	51.5	48.0	62.4	58.0
IDB - Fund for Special Operations	200.0	173.2	221.7	133.6
International Organizations and Programs	210.4	215.4	269.5	189.9
--UN Development Program	(125.8)	(128.2)	(140.0)	(120.0)
--UN Children's Fund	(36.0)	(41.5)	(42.5)	(27.0)
--Other UN Programs	(33.1)	(29.7)	(31.5)	(27.4)
--Organization of American States	(15.5)	(16.0)	(15.5)	(15.5)
International Fund for Agricultural Development 7/	--	--	(40.0)	50.0
Subtotal, MULTILATERAL	1214.0	1477.1	1806.5	1864.5
Gross Total	6884.0	7969.5	8197.9	8287.3
Offsetting Receipts (AID)	-614.1	-669.6	-779.0	-845.9
<b>GRAND TOTAL</b>	<b>6269.9</b>	<b>7299.9</b>	<b>7418.9</b>	<b>7441.4</b>

1/ Includes approved supplementals for Development Assistance (\$5,000,000) Operation Expenses (\$9,938,000), Foreign Service Retirement Fund (\$1,134,000), ESF (\$301,250,000), IDA (\$245,000,000), and IO&P (\$20,500,000, of which \$16,000,000 is for IFAD).

2/ AID DA excludes miscellaneous trust funds and local currency programs; includes IDCA/AID operating expenses and the Foreign Service Retirement and Disability Fund. FY 1982 DA included \$80 million additional for Disaster and Refugee Assistance.

3/ In FY 1981 TDP at \$5.5 million was included as part of AID Development Assistance.

4/ OPIC does not request budget authority. Authority for loan guarantees are FY 1981 - \$120 million; FY 1982 - \$100 million; FY 1983 - \$100 million; FY 1984 - \$150 million.

5/ PL 480 program levels are FY 1981 - \$1,696 billion; FY 1982 - \$1.416 billion; FY 1983 - \$1.509 billion; FY 1984 - \$1.522 billion.

6/ Does not include callable capital for MDBs.

7/ Funded from the IO&P account in FY 1983.

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matching grant program was initiated in FY 1982 to support private and voluntary organizations in their efforts to increase the awareness in the American public of the social, political, technical and economic factors pertaining to world hunger and related development issues. Approximately 70 percent of the program sustains current program initiatives. They provide for broad public participation and imaginative educational approaches to developmental concerns. The balance of program funds will support creative outreach efforts directed to catalyze the participation of the media, educational associations, and other important groups of opinion leaders in an ongoing dialogue on development issues.

Awareness of foreign assistance has spread with the increase in foreign travel and international reporting by the media. Opinion polls still show nevertheless that, except among a small, relatively affluent segment of American society, foreign assistance has lost much of the limited favor it had enjoyed in the past. Also, most Americans have no perspective on the size of U.S. assistance programs in relationship to U.S. economic capacity, to the real needs of developing countries, and to the efforts made by other donor countries.

The results of opinion polls indicate that relative to other aspects of governmental activity, foreign assistance is not among the favored uses of U.S. tax revenues except among that thin layer of those whom some polls term "the elite." There are exceptions. Where U.S. interests are clearly involved or where there are critical humanitarian concerns (e.g., the Kampuchean famine or the Colombian earthquake), Americans do, indeed, favor foreign assistance.

#### IV. Implications of the Current Economic Situation in Developing Countries on Assistance Allocations

In light of the serious problems faced by some developing countries, particularly those in Africa, an interagency working group has been established to improve coordination and to increase U.S. capacity to respond to critical situations. The United States has strongly encouraged increased donor coordination to improve the effectiveness of donor assistance efforts and to avoid donors working at cross purposes. The United States has supported the efforts of the IMF and IBRD to work with the developing countries on stabilization and structural adjustment programs, and we are working to assure that U.S. assistance supports and is consistent with these efforts and are encouraging other bilateral donors to do the same.

From 1982 through mid-1983 a number of countries faced serious financial problems. Some of these countries, including three key debtor countries, had to seek debt relief to avoid default. The situation of Brazil, Mexico, and Argentina required an unusually high degree of international cooperation and coordination. However, the willingness of governments and central banks to respond quickly to these emergencies, through the provision of bridge financing, (thereby allowing these countries to pursue orderly negotiations with the IMF and private creditors), clearly demonstrated the strength and flexibility of the international monetary system. The United States played a leading role in these operations and at the same time maintained the most critical elements of its debt rescheduling policy: (1) a case-by-case approach; (2) equitable burden-sharing among and between creditors; and (3) the adoption by debtor countries of economic stabilization programs that address the problem. Aside from the key debtor countries, the United States participated with other official creditors in the "Paris Club" multilateral rescheduling negotiations with Madagascar, Malawi, Senegal, Sudan, Uganda, Costa Rica, Togo, and Zambia. All of these reschedulings were supported by or made conditional on the use of IMF resources.

While we continue to focus the bulk of assistance on projects aimed at addressing basic long-term constraints to development, we have in specific circumstances provided fast disbursing assistance in support of structural adjustment efforts.

The United States recognizes the continuing economic crisis facing LDCs and the need for more flexible assistance to help alleviate LDC balance of payments and fiscal constraints. When it is appropriate the United States will use non-project assistance to help aid recipients make the critical and often costly policy adjustments that will set the stage for a sustained economic recovery. Compared to other donors, the United States is a leader in providing a large share of its aid in the form of non-project assistance. We are experimenting with broadening our range of aid instruments to include sector or subsector program loans within our development assistance program. For example, we recently approved a \$75 million grant to Bangladesh to assist in the reform of Bangladesh's rural credit program. A recent program loan to Kenya helps defray some of the costs of meeting IMF conditions.

The United States recognizes the fact that the success of development efforts often depend upon adequate and timely recognition of the recurrent cost implications of development programs. A.I.D.'s policy towards problems of payment of

recurrent costs is well-articulated in its policy paper "Recurrent Cost Problems in Less Developed Countries." In summary that policy states:

- Most recurrent cost problems are caused by policy failures, by either the donors or the recipients;
- Where problems are caused by recipient policy, A.I.D. will attempt to help recipients change policies; failing that, we will shift assistance to less affected sectors;
- We are willing to bear a large burden of recurrent cost support during a project's development phase, as long as there is a plan to shift responsibility to the recipient. We are also willing to extend our definition of a project's development phase to a more realistic time period (up to 10 years);
- We are designing projects and programs with the recurrent cost implications in mind;
- We are willing to provide ~~ass~~ assistance to increase LDC revenues, either through general tax reform, or through imposition of user charges; and
- We are ready to join with other donors to analyze jointly the recurrent cost problems in a specific country, and to work to reduce project proliferation beyond the capacity of the recipient to finance, manage, implement, and maintain.

## V. A.I.D. and the Domestic Economy

### A. Development Policy and its Impact on the Domestic Economy

The primary objective of U.S. economic assistance programs is to promote economic stability and long-term economic development in the developing world. At the same time, it is clear that public perception and understanding of foreign assistance plays a critical role in the continued support and funding of the program. In turn, public and Congressional support is a function of the perceived extent to which U.S. assistance serves a complex set of U.S. interests and objectives: security, development, humanitarian, economic and commercial. Recognizing this fact, and the reality that most donors tie much of their assistance directly or indirectly, we have in place procurement and other procedures which seek to produce a positive impact on the U.S. economy without distorting the primary developmental thrust or impact of the assistance effort.

We have not undertaken any analytical studies of the impact of aid on the domestic economy and employment. We do, however, periodically estimate the extent to which our bilateral economic assistance results in the procurement of U.S. goods and services. In recent years it has been estimated that approximately 70 percent of these expenditures result in U.S. procurement. The analysis being carried out by the Commission on Security and Economic Assistance, in addition to increasing the public's understanding of the U.S. assistance program, may provide further information on the impact of assistance efforts on the U.S. economy.

There have been no significant changes in A.I.D. procurement policies or practices. We have not adopted new procedures, targeted sectors or products, received special appropriations, or instituted special allocations aimed at increasing the domestic employment impact of the aid program. Furthermore, we have opposed assistance practices which are fundamentally undertaken for commercial rather than developmental reasons or those which create distortions in international trade such as the use of mixed credits.

#### B. Associated Financing

The United States is concerned about the increasing use of ODA in mixed credits, which many countries have used as a means of gaining trade advantages. Such practices have the potential for distorting both aid as well as trade. The United States participated actively in the negotiations within the DAC Working Party on Financing Aspects which resulted in a set of DAC Guidelines for the use of Associated Financing.

During the latter months of 1981 the United States set up a "Trade Financing Facility" in Egypt. It is a defensive fund, designed to match mixed credit offers provided by other countries. As an Associated Financing tool, it is to be used only in those cases where the U.S. exporter is the otherwise low and responsive bidder and stands to lose an order because of a mixed credit offered by a foreign competitor. The Facility has yet to be used to match such mixed credit competition. During 1982 the United States did not initiate any ODA Associated Financing transactions.

#### C. AID Procurement Practices

A.I.D. project loan and grant agreements include a requirement that no more than "reasonable prices" be paid for any commodities or services financed, under the agreement.

For commodities and construction services the borrower/grantee may pay no more than the lowest available price, including any transportation costs. This requirement is satisfied if the borrower/grantee or its agent has used procurement procedures required by A.I.D. or, if none are required, has followed sound procurement practices and accepts the most advantageous competitive offer, price, and other pertinent factors -- such as quality, delivery time, transportation costs, payment terms, availability of spare parts, installation, and repair services. For procurement through formal competitive bidding, the lowest responsive and responsible bid will normally be accepted as meaning the lowest available price.

The procurement of technical and professional services is based on technical competition rather than price competition. The reasonableness of price is determined through cost analysis.

For non-project assistance, it is the responsibility of the borrower/grantee to insure that the LDC importer follows the procedures specified in A.I.D. Regulation 1, that he accepts the lowest available competitive offer price, and that delivery and services factors are considered.

Price rules generally applicable to suppliers of commodities and commodity-related services under both project and non-project assistance are included in the appropriate A.I.D. Supplier's Certificate and Agreement. The supplier thereby certifies that it has met the price requirements relating to the maximum price of commodities and delivery services and has complied with the rules applicable to commissions, discounts and side payments. There are no price requirements applicable to contractors providing services other than commodity-related services.

## VI. Multilateral Contributions

### A. Priorities Concerning Multilateral Development Banks (MDBs)

Shortly after taking office the Reagan Administration initiated a comprehensive evaluation of the policies and operations of the multilateral development banks (MDBs) in order to establish a new policy and budgetary framework for U.S. participation in these institutions in the 1980s.

This study found that a sound economic justification for the MDBs rested upon the overall importance to the United States of sustained LDC growth and development. The study underscored the

value of an effective MDB role in a market-oriented international system, and highlighted the very considerable potential the banks have for enhancing developing country growth and stability:

- as catalysts for mobilizing private sector resources,
- as sources of sound economic policy advice and technical assistance, and
- as providers of inputs that the private sector would not or could not provide.

It is their role as combination project financier, policy advisor, financial catalyst, and institution builder which makes the MDBs important assets. The MDBs have a significant opportunity to promote the sound economic policy and free-market conditions necessary to better integrate the developing countries into the international system.

The Administration has determined that active U.S. participation in the MDBs is justified as long as the banks continue to support sound developmental activities and promote market oriented principles and international stability. Thus, the United States believes that MDB operations should help economic development through better integrating the developing countries into the international economic system, by:

- encouraging free and open markets;
- placing greater emphasis on private initiative and investment as vehicles for growth and reducing government involvement; and
- assisting needy countries which demonstrate a willingness to make good use of scarce resources.

In advocating a more selective approach to MDB lending, the United States is discouraging emphasis on lending targets and encouraging more attention to loan quality and the adoption of an economic policy framework which facilitates project implementation. We continue to support effective policies for phasing out reliance on concessional and hard-window resources as a recipient's creditworthiness and access to alternate sources of financing permits. Such a transition must be carefully managed so as to fairly reflect the unique economic situation faced by each borrowing country. In this way, scarce concessional resources can be concentrated on the poorest countries and capital window funds concentrated on countries without adequate access to private capital markets.

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Table C

Multilateral Development Banks  
FY 1982 Appropriation and FY 1983 Estimate  
( \$ millions)

	<u>FY 1982</u> <u>Appropriation</u>	<u>FY 1983</u> <u>Estimate</u>
<u>IBRD</u>		
Paid-in		
SCI	37.2	16.3
GCI	109.7	109.7
Subtotal	<u>146.9</u>	<u>126.0</u>
Callable		
SCI	334.5	146.9
GCI	1,353.2	1,353.2
GCI Companion	---	30.2
Subtotal	<u>1,687.7</u>	<u>1,530.2</u>
<u>IDA</u>	700.0	945.0
<u>IFC</u>	14.4	---
<u>IDB</u>		
Paid-in	48.0	62.4
Callable	609.6	828.1
Total	<u>657.6</u>	<u>890.6</u>
<u>FSO</u>		
1976 Replenishment	---	46.7
1979 Replenishment	173.2	175.0
Total	<u>173.2</u>	<u>221.7</u>
<u>ADB</u>		
Paid-in	4.7	0.2
Callable	42.6	2.2
Total	<u>47.3</u>	<u>2.5</u>
<u>ADF</u>		
ADF II	7.8	20.4
ADF II	108.2	111.3
Total	<u>116.1</u>	<u>131.6</u>
<u>AFDB</u>		
Paid-in	---	---
Callable	---	---
Total	---	---
<u>AFDF</u>	58.3	50.0
Total MDBs	<u>3,601.7</u>	<u>3,897.7</u>
Budget Authority	1,261.7	1,537.0
Program Limitation	2,339.9	2,360.7

Totals may not add due to rounding.

Source: Treasury Department 0501I / 0061A

The funding of the U.S. subscriptions and contributions to the MDBs is expected to remain a very significant component of our overall foreign economic assistance program. Nevertheless, over time, we are seeking to phase out the paid-in capital component of MDB capital increases and reduce participation, in real terms, in the soft loan windows. Recently concluded replenishments in which the U.S. has participated reflect these trends.

Legislation during FY 1982 included enactment of appropriations for United States contributions to all the MDBs and consideration of authorization legislation for an increase in U.S. contributions to the African Development Fund. The appropriation legislation passed in December, 1981 was the first Foreign Assistance Appropriation Act to be enacted in three years. It provided a total of \$1,261.7 million in budget authority for U.S. subscriptions and contributions to the MDBs. It also provided \$2,339.9 million under program limitations for callable capital subscriptions, which do not entail budgetary outlays. In FY 1983, the Administration attained authority for an appropriation of \$1,292 million in appropriations and \$2,360 million under program limitations. The Administration has received an additional supplemental appropriation of \$245 million. Table C summarizes the MDB appropriations and program limitations for FY 1982 and the FY 1983 estimate.

#### B. Contributions to International Organizations

The United States supports a wide range of developmental, humanitarian, and scientific assistance programs of the United Nations (UN) and the Organization of American States (OAS). More than three-quarters of the requested funds are intended for two major UN programs--the UN Development Program (UNDP) and the UN Children's Fund (UNICEF). Table B summarizes appropriations for FY 1982 and 1983 and the request for FY 1984.

#### VII. Co-Financing

From 1971 until 1982 A.I.D. limited its co-financing operations to those that were in conjunction with other official sources of funds--generally other bilateral donors and multilateral development banks. However, with the establishment of A.I.D.'s Bureau for Private Enterprise we have taken the view that co-financing with commercial banks can significantly contribute to the developmental objective of bringing about an enhancement of both the indigenous and foreign private sectors in LDCs. At the same time we believe that co-financing should not become an end in itself. It is thus A.I.D. policy:

- To promote and/or participate in co-financing arrangements within the context of respective country development strategies;
- That co-financing arrangements take place within the framework of A.I.D.'s existing legislation and other regulations. Basically this means that A.I.D. will continue to be a residual lender, and that A.I.D. source/origin regulations will apply in most cases. (We thus would tend to favor the parallel form, but would not entirely preclude participation in joint financing arrangements.);
- That co-financing arrangements are structured in a manner fundamentally consistent with United States' obligations under formal and informal international trade agreements, particularly the OECD Export Credit Arrangement;
- That commercial bank participation should generally be in the form of "at risk lending" in order to enhance the prospects for additionality over the medium to longer term;
- That while "comfort" in various forms will be provided to private lenders, consistent with prudent financial management, A.I.D. will as a matter of general policy avoid the use of mandatory cross-default clauses; and
- That in cases of direct A.I.D. loans to indigenous private sector firms, interest rates should be at or near market terms, with repayment periods based upon the financial characteristics and considerations of respective projects, and specific provisions included with regard to the foreign exchange risk.

A.I.D. has completed one co-financing arrangement in which a commercial bank has participated. This operation was undertaken in 1982 and provided financing for a leasing project in Peru in which A.I.D. provided a direct loan to a private firm without a government guarantee. A private commercial bank and the IFC also participated in this financing. So far this operation is proceeding smoothly and we hope to initiate other co-financed projects.

In our discussions with commercial banks we have found them generally receptive, within the context of their present more cautionary approach to lending to LDCs. However, a number of bankers indicated that the potential for their participation might be enhanced if we were to make use of a mandatory cross-default clause.

### VIII. Allocation of Bilateral Assistance

In the allocation of all forms of assistance, the United States gives importance to U.S. interests in a particular region or country, and in particular, to whether the country is an important market, a source of important raw materials, the location of substantial U.S. private investment, strategically located relative to regions of vital interest to the United States, or the scene of actual or potential destabilizing economic or political conditions.

#### Development Assistance

Other U.S. foreign policy considerations for country allocations of Development Assistance include: the character of its overall relations with the United States; its internal situation with regard to human rights; and the extent of its overt (or covert) efforts to acquire a nuclear weapons capability. The principal developmental criteria for allocation of Development Assistance funds by country are:

- a country's need, as measured by per capita income and population;
- a country's economic progress; and
- its government's commitment to policies and programs that promote equitable growth.

#### Economic Support Fund

The criteria for country allocations of the Economic Support Fund (ESF) are more directly related to political and security considerations: ESF financial assistance is offered to maintain or achieve the political and economic stability of governments favorable to the United States. ESF resources help mitigate balance of payments crises of countries whose stability is important to the United States, e.g., Jamaica, Pakistan, Sudan, and Turkey. The largest ESF country allocations are made to Egypt and Israel in carrying out the U.S. commitment to achieve peace in the Middle East initiated by the Camp David agreements.

#### PL 480 Food Aid

Food aid under Public Law 480 is allocated to recipient developing countries which need imported food beyond their capacity to finance such imports on commercial terms. PL 480 imports, therefore, have an impact on the balance of payments of recipient countries. Consequently, the U.S. allocation decision concerning PL 480 also takes into account the general

Table D

US Bilateral Concessional Assistance Funds for Development Programs  
By Economic Level of Recipient Country  
FY 1980 - 1983

	Fiscal Year	Foreign Assistance Act		
		Total	Development Asst. & Other	Ec. Support Funds
Total Country Program Funds		In Millions of Dollars		
	1980	1292	989	303
	1981	1400	1002	398
	1982	1743	1079	664
	1983	2015	1051	964
Countries With Per Capita GNP of \$795 or Less <u>1/</u>	1980	885	741	1455
	1981	997	728	269
	1982	1184	746	438
	1983	1408	759	649
Of Which Least Developed Countries <u>2/</u>	1980	326	267	59
	1981	350	289	61
	1982	420	290	130
	1983	404	294	110
<u>Percent of Total Bilateral Country Program Funds</u>				
Countries With Per Capital GNP of \$795 or less <u>1/</u>	1980	68	75	48
	1981	71	73	68
	1982	68	69	66
	1983	70	72	67
Of Which Least Developed Countries <u>2/</u>	1980	25	27	19
	1981	25	25	15
	1982	24	24	20
	1983	27	20	11

Note: Above data do not include Israel, Egypt, and Turkey.

\*Comparable data for PL 480 Titles I & II were not available for FY 1983 at time of writing because contingency funds & reserves had not yet been allocated to countries.

Title I authority includes Title III.

1/ The poverty criterion for eligibility for credits from the International Development Association is per capita GNP of \$795 a year in 1980 dollars.

2/ The Sahel Development Regional funds are included with bilateral country allocations to the least developed countries for purposes of these tables. All eight of the Sahel countries have per capita incomes of \$730 or less. Six of the eight are least developed countries (LLDCs).

economic situation and the economic policy environment of recipients. At least 75 percent of PL 480 Title I food aid is allocated to countries whose per capita income is below the IDA poverty criterion--\$795 in 1981 prices. Public Law 480 also stipulates that only countries below the IDA poverty criterion may participate in the highly concessional Title III program. Agreements authorized by Title III provide for effective "loan forgiveness" to the extent that the U.S. agricultural commodities or the local currency equivalent to their dollar sales value are used for agreed development purposes. In addition, PL 480 Title I loan terms are related to the general economic development level of the recipient.

PL 480 Title II provides grants, principally to private voluntary organizations, for emergency and disaster needs, including the feeding of refugees. It also provides for the donation of commodities to U.S. voluntary agencies that sponsor feeding programs for the needy, particularly malnourished children, and small-scale "food for work" development programs. Recipient countries make substantial contributions to these programs, including the financing of internal transportation, storage, and distribution.

#### Assistance to Low Income LDCs

The United States has long recognized the serious long term development problems faced by the least developed countries and supports the Substantial New Program of Action (SNPA) as a balanced and constructive approach to the constraints and problems of these countries. In this context we have continued to increase the overall level of bilateral assistance to these countries. The Administration's FY 1984 budget proposal includes \$712 million in bilateral economic assistance to these countries, an increase of 9 percent over the proposed FY 1983 level. We have maintained our policy of providing assistance to the Least Developed Countries in grant form to the extent possible. As a result, the grant element of United States assistance to these countries in 1982 was 97 percent. We strongly support the efforts of the IBRD and the UNDP to organize country review meetings to improve coordination of assistance and discussion of development problems. In the area of trade, almost all U.S. imports from the Least Developed Countries enter the U.S. on a duty-free basis.

In FY 1982, the United States allotted to low income (IDA-eligible) developing countries 70 percent of bilateral country program funds (excluding funds provided for security maintenance purposes in Egypt, Israel, and Turkey). The nations on the UN list of "Least Developed Countries" (LLDCs) received U.S. assistance accounting for 24 percent of all U.S.

concessional assistance for country programs (see Table D). A number of higher income developing countries have been graduated from AID's assistance rolls altogether (e.g. Brazil, Colombia, Korea, Nigeria, Taiwan).

The U.S. policy of emphasizing support to the poorer among the developing countries is reflected in the terms of our assistance as well as volume. Least Developed Countries generally receive grants. Other developing countries receive a mixture of grants and loans, but with a longer loan repayment period for the countries at the lower end of the income scale. Under present (FY 1983) legislation, the relation between a country's per capita income and the maturity of AID Development Assistance loans to it is as follows:

<u>Per Capita Income (1981 \$)</u>	<u>Maturity of Loans (years)</u>
less than 795	40
795-1284	25
1285 or more	20

#### Geographic Allocation of ODA

The regional allocation of Development Assistance (functional accounts plus the Sahel Development Program), ESF, and PL 480 resulting from the criteria described above is shown in Table E for FY 1981 and FY 1982. Of Development Assistance directly allocated by country, the densely populated countries of Asia received the largest share, with Africa (including the Sahel Development Program) close behind, Latin America and the Caribbean further behind, and the Near East receiving only a small portion of the total. The Near East, however, absorbed well over half of ESF in FY 1982, with the bulk going to Egypt (\$771 million) and Israel (\$806 million). Of the PL 480 total, the Near East accounted for 26 percent and Asia for 22 percent.

#### IX. Distribution by Sectors and Areas of Emphasis

##### A. Food and Agriculture

U.S. assistance concentrates on improving LDC self-reliance in food production, food security/nutrition, and on using agriculture as a means to support broad-based economic growth. The bilateral program emphasizes four strategic, interrelated elements to accomplish these objectives:

1. Improve LDC policies to remove constraints to food production, marketing and consumption;

Table E

US Bilateral Economic Assistance by Region, FY 1981 and 1982

<u>Budget Account and Region</u>	<u>\$ million</u>		<u>percent</u>	
	<u>FY 1981</u>	<u>FY 1982</u>	<u>FY 1981</u>	<u>FY 1982</u>
A. Development Assistance (functional accounts plus Sahel):				
Africa (Incl. Sahel Program)	300	329	22.9	23.6
Asia	391	400	29.9	28.6
Latin America & Caribbean	232	281	17.7	20.1
Near East	61	39	4.7	2.8
Inter-regional	325	347	24.8	24.8
Total	1309	1396	100.0	100.0
B. Economic Support Fund:				
Africa	163	295	7.4	10.6
Asia	32	155	1.5	5.6
Latin America & Caribbean	143	329	6.5	11.9
Near East	1860	1991	84.6	71.9
Inter-regional	1	0.5	-	-
Total	2199	2770.5	100.0	100.0
C. PL 480:				
Africa	215	190	16.1	13.1
Asia	407	319	30.0	21.9
Latin America & Caribbean	157	176	11.8	12.2
Near East	364	384	27.3	26.4
Inter-regional <u>a/</u>	190	383	14.3	26.4
Total <u>b/</u>	1333	1452	100.0	100.0
D. Housing Guaranty Program <u>c/</u>				
Africa (incl. Sahel Program)	22.5	40.4	16.7	28.4
Asia	45.0	-	33.3	-
Latin America & Caribbean	50.5	87.0	37.4	61.1
Near East	17.0	15.0	12.6	10.5
Total	135.0	142.4	100.0	100.0

a/ Includes Europe, World Food Program, emergency reserve, stock adjustment for Title I, and ocean transportation for Title II.

b/ Before adjustments for: (a) 3.5 percent prepayment on commodities by recipient countries under Title I; (b) prior year obligations financed during current year and current year obligations financed in succeeding year.

c/ Guarantees only: not appropriated funds.

2. Expand the role of developing-country private sectors in agricultural and rural development, and the complementary role of the U.S. private sector in assisting this expansion;

3. Develop human resources and institutional capabilities, especially to generate, adapt and apply improved science and technology for food and agricultural development;

4. Employ all available assistance instruments in an integrated manner, including provision of PL 480 food aid in a way that contributes to the other three strategy elements as well as meeting food security and nutritional needs.

Each of these elements is intended to increase the effectiveness with which U.S. economic assistance is employed in helping LDCs introduce innovations in agricultural production and distribution. While the mix of these elements varies according to the differing needs and problems among countries, the achievement of lasting food security requires greater attention to each of them in most developing countries.

Following through on President Reagan's offer at the October 1981 summit meeting in Cancun, Mexico, to send highly qualified U.S. agricultural and agribusiness experts to developing countries, A.I.D. in coordination with the U.S. Department of Agriculture, has sent Agriculture Task Forces to five countries: Peru, Thailand, Honduras, Venezuela, and Liberia.

The Task Forces focused on major impediments to food and agricultural development in the areas of policy, science and technology, and the private sector. Examples of the types of impediments and solutions identified follow:

- remove economic disincentives to agricultural production
- conserve and efficiently use land and water resources;
- expand highway and farm-to-market road systems;
- encourage exports through private sector endeavors;
- stimulate increased savings;
- facilitate private sector competition in agricultural marketing;
- provide leadership, organization and financial support to agricultural research and extension;
- liberalize trade policies;
- assist small farmers who employ traditional agriculture methods;
- expand and streamline agricultural research and extension systems;
- restore the land market and legalize rental of land;

- reevaluate the Government's role in basic grain marketing and storage; and
- improve information systems for agricultural planning.

A.I.D. is following through on the recommendations of these Task Forces, funding additional follow-on studies where appropriate, and encouraging a continuing process of consultation between Task Force members and host country governments and private sector officials. Task Force missions are planned for up to five additional countries in 1983.

#### B. Energy

The lack of adequate domestic energy resources and the high cost of imported energy have been major constraints to economic development and improvement in developing countries. The United States seeks to encourage developing countries to expand production of their own energy resources, renewable as well as conventional, and to assist these countries to overcome energy-based constraints to their development.

A.I.D. uses technical assistance and limited capital assistance to encourage the development of indigenous energy resources and to foster the most efficient use of all energy resources by supporting policy reform, the transfer of technology, and the strengthening of host country institutions. In addition, it serves as a catalyst for private investment in energy resource development. Programs are sensitive to the interdependence of rural and urban energy needs and of the traditional and modern sectors of developing economies.

A.I.D.'s energy program focuses on four basic areas:

1. energy analysis, planning and policy development;
2. training and institutional development;
3. technology/system development, including research, demonstration and site testing of new supply systems; and
4. increasing energy supplies and improving the efficiency of energy use.

These activities are designed to make the most efficient use of A.I.D.'s limited financial resources, they complement the activities of other international donors and private sector

institutions, and make the best use of U.S. skills and technological know-how to alleviate a broad range of energy problems faced by developing countries.

C. Human Resources Development - Health, Nutrition, Education, and Population

Health

Despite progress toward increasing life expectancy in recent years, the health of the majority of people in most developing countries remains poor by any measure. In many countries life expectancy does not exceed 50 years. One-third or more infants die before the age of five, and hundreds of millions of adults suffer from chronic, debilitating diseases. The basic objective of A.I.D.'s health program is to assist developing countries to become self-sufficient in providing broad access to cost-effective preventive and curative health services. Primary Health Care (PHC) remains A.I.D.'s top priority in its health assistance efforts. Within the broad framework of PHC programs, A.I.D. is concentrating on the following initiatives:

- improving the effectiveness and financial viability of basic health services;
- decreasing death and disability from infectious diseases; and
- improving the availability and quantity of domestic water supply and sanitation.

For FY 1984, A.I.D.'s health budget request is approximately 25 percent lower than for FY 1982 or FY 1983, reflecting a shift in A.I.D.'s health programs away from commodities and construction and toward low-cost health interventions. This temporary decrease in funding also represents a brief hiatus while field missions develop programs more in line with A.I.D.'s new (1982) health policy. For the future, A.I.D. intends to give special attention to encouraging LDCs to modify policies that inhibit cost-effective self-sufficient programs. The Agency will stress private sector approaches to providing basic health care, and will emphasize the need to introduce cost-recovery measures into LDC health programs. A.I.D. will also continue to provide support for a broad range of indigenous institutions involved in the promotion of health, including women's groups, universities and research institutions, village-level health committees, private sector health practitioners and enterprises, and voluntary organizations. Finally, A.I.D. is increasing its support for technology development, adaptation and transfer, principally through biomedical research relevant to LDC health problems.

### Nutrition

The United States will place greater emphasis on addressing nutrition problems through its agricultural and other assistance programs. As a result, there will be an increase in programs which specifically address nutrition problems over and above continued support for direct nutrition programs. Nutrition programs in the future will be more closely integrated with the health, rural development, and education programs which A.I.D. also supports.

### Education and Training

The general shortages of highly trained manpower have eased substantially in most countries, reflecting the steady expansion of local universities and technical training capacities as well as the results of international training over the last two decades. However, all countries continue to have specific needs for specialized personnel and most countries continue to struggle with the very difficult task of expanding their school systems to enable most children to obtain a basic education. High level manpower training and technical assistance to help countries improve the efficiency of their basic education systems are the two priorities of A.I.D.'s education assistance programs. Manpower training for key administrators, managers, scientific and professional personnel has grown substantially, accounting for almost 60 percent of A.I.D.'s total education and human resources assistance in FY 1983. Project-related training in the agricultural, health, population, and other sectors supports external training for an additional three to four thousand individuals annually. External training in U.S. universities is the main training emphasis, though there is increasing support for short-term training, training in third-country institutions and strengthening of local training institutions. Support for basic education, which has declined in recent years, is again being emphasized.

In 1983, A.I.D. issued a new Policy Paper on Basic Education and Technical Training which encourages: (1) improvements in the internal efficiencies of basic schooling systems; (2) improved management of the recurrent costs of large scale education systems; (3) closer linkages between education and training systems and employment; and (4) greater involvement of communities, parents and the private sector in the development and maintenance of the education and training systems. These efforts are currently about 30 percent of A.I.D.'s education assistance and are expected to grow somewhat in future years, particularly in Africa.

## Population

The United States expects to maintain its support for voluntary family planning efforts, reflecting the conviction that effective population programs are a vital part of any overall development strategy, and that the United States has an important contribution to make in this area. U.S. strengths in population programs are rooted in American scientific expertise, management and logistic skills, and the record of U.S. private enterprise. The U.S. program will focus on those developing countries with governments strongly supportive of family planning and where the improvement in economic and social conditions has already generated a spontaneous interest in smaller families. No less important are those countries where awareness of the impact of rapid population growth on social and economic development and recognition of the need to provide voluntary family planning services are more recent.

### X. Aid Effectiveness and Management

A.I.D. has commissioned an Implementation Task Force to examine A.I.D. procedures and policies to determine how we might be able to provide assistance more efficiently and expeditiously. The report of that task force is due in late 1983.

We are also concerned with implementation on the recipient side. Almost all A.I.D. projects have an institutional development component designed to strengthen project related recipient institutions in order to make them more effective. In addition A.I.D. provides long-term training for LDC government employees, and long and short-term technical assistance in management. A.I.D. is also developing computer programs and other management tools to assist LDC governments to improve integration of financial management and development planning.

A.I.D. has adopted a policy completely consistent with the DAC guidelines on aid implementation, local and recurrent cost financing and maintenance support. A.I.D. is engaged in major activities to help implement these policies:

-- We have authorized a number of programs intended to increase the local currency resources of recipient countries;

-- We are engaged in major studies to improve cost recovery in health, population, and irrigation projects;

-- We are developing a computer model to help governments deal more effectively with the recurrent cost implications of a portfolio of development projects;

-- We are encouraging policy changes that reduce subsidies and consequent drains on government budgets;

--We are financing purely local currency projects and where appropriate we are bearing an increasing share of recurrent costs in other projects.

We have found that the present world conditions, coupled with a growing realization of the need for policy change and economic restructuring, have made recipient countries much more receptive to policy reform. Almost all of our projects have a policy adjustment component built into them. Some examples:

--A Bangladesh rural credit program adjusts interest rates for both savers and borrowers;

--A Zimbabwe education program loan is keyed to a large number of policy changes designed to increase the efficiency of the educational sector;

--A Kenya structural adjustment loan is keyed to reduce foreign exchange constraints in the fertilizer sector;

--An Egypt Supporting Agricultural Systems Project links our assistance to basic reforms in agricultural research and extension such as increasing budgetary resources into this sub-sector;

--An Indonesia Provincial Area Development Project is based on decentralization of certain major governmental functions and the strengthening of local governmental authorities; and

--A Zaire North Shaba Rural Development Project is conditioned on raising agricultural product prices to levels that reflect the scarcity value of these products.

## XI. Measures to Encourage and Improve Cooperation With the Private Sector

### A. New Initiatives to Promote Cooperation With the Private Sector

Private initiative has an important role to play in achieving LDC economic growth and development objectives. A.I.D. believes there are appropriate roles for private business entities to play in development and that such efforts will demonstrate effective public/private cooperation. When incor-

porating private enterprise efforts into A.I.D.'s development assistance program, emphasis is given to several subject areas. These areas have been chosen because i) they are considered to be of high development priority in LDCs, ii) they represent areas in which private enterprise has an appropriate and significant role to play in contributing to development, and iii) they are areas in which considerable expertise to address them is available in the private sector.

In its private enterprise development efforts, A.I.D. uses private sector expertise, resources, and institutions to:

-- Provide assistance in reviewing host country laws, regulations and policies which affect business operations and investment decisions, providing recommendations on needed changes to improve the overall investment environment;

-- Promote the strengthening and development of capital market institutions which must function effectively to mobilize local resources and provide debt and equity financing for business growth (important here is an interest rate structure which reflects the cost of capital and includes risk considerations, and laws/policies which provide incentives for risk taking);

-- Develop and provide both technical and management training which responds directly to perceived business needs;

-- Assist in the transfer, incorporation and management of new, appropriate technologies into host country business enterprise through technical assistance, joint venture investments and other business relationships;

-- Help develop skills and expertise needed in starting new businesses, including business and strategic planning, raising capital, and penetrating new markets; and

-- Develop value added and export businesses and the required marketing skills to generate additional and/or conserve scarce foreign exchange.

The Agency also has begun to experiment on a limited basis with a reimbursable cost-sharing, feasibility study financing program. Potential projects require host country sponsors who will be investors in the ultimate project. A.I.D. reimburses 50 percent of the study costs incurred up to \$50,000. Should an investment result from the study, there is a repayment commitment on the part of the project sponsors for A.I.D.'s contribution to the feasibility study financing. A.I.D. also reserves the right to participate in financing the project.

B. New Steps to Increase Participation of Small and Medium-sized Enterprises in Development.

The needs of small and medium-sized enterprises in developing countries are many and diverse, and include: i) appropriate forms of debt and equity financing; ii) technical, managerial and marketing assistance; iii) access to product and market information; and iv) a policy environment which encourages the development of and investment in such enterprises.

A.I.D. is providing assistance in these four areas to help encourage small and medium-sized business development. On the policy level, efforts will be made to encourage the development of laws and regulations which provide tax and other incentives for investing in small and medium-sized businesses. While we do not advocate subsidization, preferential tax treatment and other incentives may help to offset risk perceived by potential investors.

A.I.D. is also working to strengthen existing and, especially, to create new LDC private sector institutions. To assure a balanced portfolio which allows adequate risk management, such institutions are encouraged to address a range of business needs and to provide several income-generating services. Such services include:

- Debt/equity financing
- Management consulting
- Technical/management training
- Marketing assistance
- Business planning advice

This diversification of services allows institutions to generate income from several sources, while providing small business enterprises access to needed assistance (in a single institution) which is generally difficult or impossible for them to obtain.

XII. Trade with Developing Countries

The size and openness of the U.S. market have continued to provide the developing countries with an enormous market for their exports. In 1981, U.S. imports from the non-OPEC developing countries amounted to \$66.9 billion, nearly 26 percent of these countries' total exports and two and a half times the level of total net Official Development Assistance from all OECD coun-

tries. On the other side, the non-OPEC developing countries absorbed a substantial proportion of U.S. exports, nearly 30 percent in 1981. This exceeded the value of U.S. exports to our two largest single-country markets, Canada and Japan, combined.

Despite growing pressures for protection in the midst of slow economic growth, in 1982 the United States kept to a minimum new safeguard actions against imports from LDCs; it has also been gradually phasing out most existing escape clause measures. On June 30, 1982, the U.S. Orderly Marketing Agreements with Taiwan and Korea for TV sets and parts expired. The temporary duty increase on mushroom imports was reduced as scheduled to 10 percent on November 1, 1982. The additional fees imposed on high carbon ferrochromium were removed on November 15, 1982 and the temporary additional tariff on imports of porcelain-on-steel cookware was reduced from 20 to 15 cents a pound. The global quota on clothespins, however, was extended at the existing levels for another two years.

Under the auspices of the Multifiber Arrangement (MFA), the United States has bilateral agreements containing specific restraint levels with 26 textile-exporting developing countries. An extension of the MFA to July, 1986 was completed on December 22, 1981. Although the terms were more restrictive than might have been hoped for by the developing countries, the extension does provide for an orderly expansion of textile trade, particularly with respect to those developing countries which are smaller producers or new entrants in the textile trade.

Through its Generalized System of Preferences (GSP) program, the United States provides duty-free treatment for imports of approximately 3,000 product categories from 140 beneficiary developing countries. Duty-free U.S. imports under the GSP amounted to \$8.4 billion in 1981. The major beneficiaries continue to be Taiwan, Korea, Hong Kong, Mexico, and Brazil, which together accounted for 60 percent of the value of GSP duty-free imports in 1981. This concentration of benefits is understandable in light of the product composition of the GSP program, the varying abilities of developing countries to export, and the trade policies of various developing countries. Nevertheless, the figure is down from 1979, when the five countries accounted for 67 percent of GSP duty-free imports.

While paring the benefits available to the more advanced beneficiary countries, the United States has continued to broaden the base of benefits available to all beneficiary countries. In March 1982, 48 new products, representing \$76 million in GSP-eligible imports, became eligible for GSP treatment. The Administration expects to submit legislation to Congress to extend the statutory authority for the U.S. GSP, which is scheduled to terminate in January 1985.