

# Development Issues

U.S. Actions Affecting  
Developing Countries

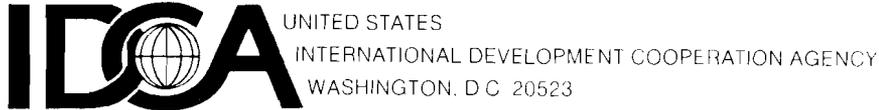
The 1985 Annual Report of the Chairman of  
the Development Coordination Committee

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May, 1985

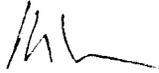
TO THE CONGRESS OF THE UNITED STATES:

The Annual Report on Development Coordination discusses the events of the 1984 fiscal year in accordance with the requirements of the Foreign Assistance Act, as amended. It represents the cooperative efforts of the member agencies of the Development Coordination Committee (DCC), under the coordination and overall responsibility of my staff.

The DCC, which I chair, was established by Congress to assure coordination of development policies and programs within the U.S. Government decision-making process. Such coordination has both formal and informal aspects. On the more formal side, coordination occurs through the DCC and its subsidiary bodies, including the working group on multilateral assistance, the subcommittee on food assistance, and of course the working group which collaborated in the production of this report. The other major mechanism of formal coordination entails participation by myself or members of my staff in the work of such interagency groups as the National Advisory Council, the Trade Policy Committee, the Cabinet Council on Economic Affairs, the Senior Interagency Group on International Economic Affairs, and others. On the informal side of coordination, 1984 saw a continuation of the daily working relations between members of my staff and other agencies of the U.S. Government, with my own personal involvement as needed. We have thus continued to fulfill the mandate of ensuring that development goals and issues are taken into account in Executive Branch decision-making processes on international finance, investment, trade, technology, and other policy areas affecting developing countries.

U.S. policy in 1984 continues to reinforce our long-standing goal of providing necessary resources to address basic constraints to development. As in previous years, we continued to emphasize that developing countries establish sound economic policies in an environment conducive to encouraging private sector initiative. We assisted in creating and strengthening developing country institutional capacity and in developing and adapting appropriate technologies to developing country circumstances. In providing this assistance, we have attempted to create a climate of mutual cooperation and respect to encourage the design of effective programs benefiting that segment of a developing country's society with the greatest need, the poor majority.

Whatever level of resources we provide to the developing countries, there is little doubt that economic growth and development will depend fundamentally on their own programs 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.

A handwritten signature in black ink, appearing to read 'M. Peter McPherson', with a stylized, cursive script.

M. Peter McPherson

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**CHAPTER 1**  
**INTRODUCTION**

**1.1 TRADE AND DEVELOPMENT**

The events of the 1984 fiscal year are discussed in this Development Issues report in accordance with the requirements of the Foreign Assistance Act, as amended. The Report represents the cooperative efforts of the member agencies of the Development Coordination Committee (DCC). This year the theme of trade and development receives special emphasis. While economic development will always be a process that depends primarily on the determination and resources of the developing countries themselves, trade can accelerate the process by enlarging markets for locally produced products, expanding employment opportunities, introducing new and cheaper sources of outside resources, and stimulating efficiency through competition. Trade, under terms that make economic sense, can do much to foster growth and sustain economic development.

Trade in agricultural commodities, for example, can directly assist a developing country to overcome short- and long-term food deficits and help to alleviate the fundamental problems of hunger and malnutrition. Expanded markets for agricultural and nonagricultural goods can stimulate demand for skills found in the developing countries as well as provide opportunities for the underemployed. Ultimately, income associated with trade provides the means for families to obtain health care, improve their shelter, and satisfy other essential needs for a decent standard of living.

US trade and development efforts in the developing world also benefit Americans at home. As was clearly demonstrated over the last decade, US prosperity is linked to that of the developing world. These countries are a focus for profitable investment, a major market for US goods and services, and a source of vital strategic imports. The United States exports 38 percent of its manufactured goods to the developing world, a figure that translates into 20 million jobs for American workers. In addition, around one-third of American farm exports are bound specifically for the developing world, thus providing significant support to the US farming industry. Also, by bolstering the internal economic stability of nations in the developing world, US trade and development assistance helps to build stable social and political systems, which in turn further the economic and security interests of the United States. The importance of the developing countries to the United States is highlighted in Chapter Two. Linking trade and development together is a critical opportunity that is discussed in Chapter Five.

## 1.2 US ECONOMIC ASSISTANCE PRIORITIES

Chapter Six of this volume reviews the four major priorities of US assistance for development, while the actual programs and support for multilateral institutions are described in Chapter Seven and Chapter Eight, respectively. The policy priorities are as follows:

- Policy Dialogue: The United States will use its assistance to support an aid recipient's economic policies when they are deemed effective, and to promote their improvement when they are deemed less than effective for long-term economic development.
- Private Enterprise: Competitive markets offer the best means of achieving the objective of helping developing countries meet the basic human needs of their poor majority through sustained, broadly based economic growth. Therefore, the US economic assistance program will seek to promote open and competitive markets in developing countries and to support policies in those countries that permit the exercise of the indigenous private sector initiative and ingenuity. Underlying this emphasis on building an indigenous private sector is AID's recognition that the development of a strong nongovernment sector is critical for the long-term preservation of civil and political rights in a society.
- Institutional Development: Effective development institutions enhance a country's ability to marshal its own human and other resources for development by helping men and women gain access to the skills and the services needed to increase their productivity and income and to increase the country's absorptive capacity. It is US policy to help developing countries establish and strengthen public and private institutions in support of mutually agreed-on, priority development objectives.
- Technology Development, Transfer, Adaptation, and Extension: Economic growth requires the indigenous capacity 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.

The three major sectoral priorities for US bilateral economic assistance remain food and agriculture, energy, and human resources (including population).

### 1.3 THE INTERNATIONAL ENVIRONMENT FOR DEVELOPMENT IN 1984

Economic recovery, led by the United States and a number of developed countries, continued in 1984. The recovery is particularly important to the economic prospects of the middle- and higher-income developing countries that have the capacity to respond to improved international economic conditions. Nonetheless, for many developing countries, particularly the low-income countries, the economic situation is still very serious, and many of these countries will continue to experience difficult economic conditions including severe balance of payments constraints, high unemployment, slow growth and, for some, declining per capita income. Some developing countries have, however, contributed to these problems by their adherence to inappropriate economic policies and failure to take on a timely basis the policy measures required to adjust to the international economic environment and domestic economic conditions. A report on the economic environment during 1984 and a discussion of progress and problems in the developing countries is found in Chapters Three and Four.

## CHAPTER 2

### THE IMPORTANCE OF DEVELOPING COUNTRIES TO THE UNITED STATES

#### 2.1 INTERNATIONAL PEACE AND STABILITY

Developing countries are fundamental to US aspirations for security and peace. Since 1950 most of the major threats to international stability have come in developing countries: Korea in 1950; Dien Bien Phu in 1954; the Suez Canal in 1956; Cuba in 1962; and, more recently, Iran, Angola, Afghanistan, Kampuchea, El Salvador, Ethiopia, and Lebanon. The fault line of global instability runs strongly across the continents of the developing world.

This instability is inimical to US security in many ways. Small incidents can flare into larger conflicts and have the potential of leading to confrontations between the superpowers. More subtly, the Soviet Union and its allies are able to use political instability to their own advantage. Some of the most significant uses of military power by the Soviets since World War II have occurred in the developing world. Strategically, some of the least secure developing countries are sources of critical raw materials or lie astride sea lanes that carry US military forces and world commerce. The United States cannot defend its interests alone, or with only the assistance of Europe and Japan; it needs the cooperation of developing countries as well.

In a number of areas in the developing world, the United States faces crises that threaten US and free world interests:

- The Middle East and Southwest Asia are critical to the Middle East peace process and to efforts to secure unimpeded access for all to the petroleum of the Persian Gulf.
- Closer to home, the Central American and the Caribbean region faces a growing challenge to emerging democratization and reestablishment of economic stability from insurgency and terrorism encouraged and supported from outside the region and through regional proxies.
- Several countries in Southeast Asia are located astride strategic sea lanes vital to US and Western interests. Indonesia is an important source of petroleum. The Philippines provides the United States with essential military facilities.

- Africa is a troubled continent, beset by severe food shortages and malnutrition, by falling export revenues and rising import bills, and by crushing burdens of debt service. Many African nations are targets of subversion by Soviet-, Cuban-, or Libyan-supported dissidents. These unpleasant realities directly affect US policy interests on the continent.

A prosperous world economy in which developing countries have an increasing stake contributes to international peace and stability. Failure to make acceptable progress in ameliorating conditions of poverty and improving growth prospects can only lead to domestic instability and increasing frustration on the part of developing country governments over the workings of the international system.

More specifically, successful development enhances the conditions for stability in a number of ways:

- It strengthens the ability of developing countries to resist outside aggression. Healthy, growing economies, with broadly shared growth, can alleviate population discontent and generate greater support for the resources needed to maintain adequate defenses.
- It reduces the chances of aggression, because domestic prosperity diminishes the need to find external distractions from internal failures. Furthermore, the potential profits of external aggression are less attractive when a country is as prosperous as its neighbors, whereas the potential costs, in terms of damage to one's own economy, are greatly increased. Violent means of settling disputes thus become more costly.
- It enables developing countries to respond more effectively to the needs of their populations, thus reducing the potential for internal disorders. Large numbers of hungry and unemployed people have little to lose in pressing for violent change. They are easy prey for domestic or foreign-based revolutionaries.
- As a country develops, its interaction with the Western trade and financial system will inevitably grow stronger and deeper. As this process occurs, that country will have more in common with the United States, and it will have a growing interest in the integrity and stability of the economic institutions (such as the General Agreement on Tariffs and Trade, the International Monetary Fund, the World Bank, and the regional development banks) that underlie the Western political and security system.

## 2.2 ECONOMIC AND COMMERCIAL INTERESTS

### 2.2.1 The Nature of Economic Interdependence

The tremendous growth in global economic activity since World War II has brought about a significantly higher standard of living for much of the world's population. In the process, the world economy has progressed to a point of irreversible interdependence as a result of the formal trade and finance relationships created to enhance economic growth and development. Together, all countries have a joint stake in helping to shape a peaceful and secure international economic order that will continue to broaden and extend the benefits of global progress.

US prosperity is increasingly influenced by this country's growing dependence on trade and, in turn, its role of leadership in international economic cooperation serves to promote development and progress in the Third World. Economic stability and prosperity in the developing countries provide important economic benefits to the United States through trade and investment relationships that this stability makes possible. As developing countries achieve greater economic progress, they provide more opportunities to their own populations and are more likely to be politically and socially stable members of the community of nations. Long-term US security and economic interests are benefited in the process.

### 2.2.2 The Growing Importance of Trade to the United States

Historically, the United States has been less dependent on foreign trade as a contributor to economic growth than some of its developed country trading partners. However, in recent years, the importance of trade to the US economy has grown significantly. By 1980, nearly one-third of all farm acreage in the United States was planted to export crops, while 20 percent of all goods manufactured in the United States were exported abroad--twice the figures of a decade earlier. International trade accounts for a growing percentage of the US gross national product (GNP). US exports of goods as a percentage of GNP reached a record high of 8.2 percent by 1980, almost double the level of a decade earlier. While the ratio has abated some in the 1980s, the share of total output accounted for by exports stood at 6 percent in 1983. If hard data on US exports of services (banking, insurance, etc.) were available, an even more impressive percentage of GNP could be ascribed to exports. Over the same period, US imports as a percentage of GNP more than doubled to 9.3 percent in 1980. By 1983, imports still measured an important 7.8 percent of GNP.

The importance of trade to the US economy is demonstrated further by the dramatic increase in the value of US trade since 1970. Since that time, the value of US two-way trade has grown from \$83 billion to nearly \$459 billion in 1983, an increase of 453 percent. For 1984, US trade totaled over \$535 billion. From 1970, US trade with the European Economic Community grew from \$21 billion to \$104 billion in 1984 (495 percent). Trade with Canada increased from \$20 billion to \$111 billion (555 percent), and trade with Japan rose from \$11 billion to nearly \$79 billion (718 percent). Growth in trade between the United States and the developing countries has been the most dramatic, registering a nearly ninefold increase (\$23 billion to \$194 billion) between 1970 and 1980. In 1983, trade with developing countries slacked to \$191 billion and declined further to \$174 billion in 1983 as a result of the global recession. Trade with the developing nations in 1984 climbed back to \$188.2 billion.

In addition to the dramatic increase in the value of US trade during the past decade, a marked shift has occurred in the relative importance of various world regions to US trade. US trade with traditional, developed country trading partners has declined in relative importance during the 1970-80 period as developing countries have emerged as growing sources of US imports and important new markets for US exports. This trend, however, was reversed somewhat during the worldwide economic slowdown of 1981/82. US trade with developing countries, which increased from 21.3 percent in 1970 to 42 percent in 1980, declined to about 38 percent in 1983. Trade with the European Economic Community remained flat at about 19.3 percent in both 1983 and 1984, following a decline from 24.8 percent to 19.4 percent during the decade of the 1970s. By contrast, trade with Canada, which declined from 29.4 percent to 16.7 percent in the 1970s, rebounded strongly to 19.6 percent in 1983 and improved further to 20.7 percent in 1984. US trade with Japan, after declining slightly in the 1970s, jumped to 13.7 percent in 1983 and rose further to 14.7 percent in 1984.

### 2.2.3 US Trade With Developing Countries

Changes in US trade policies (such as the establishment of the Generalized System of Preferences [GSP] and implementation of the Tokyo Round multilateral trade negotiations [MTN] measures) led to a shift in US trade patterns during the 1970s and 1980s from traditional markets in developed countries to new markets in the developing nations. The value of imports from developing countries as a percentage of total US imports increased sharply during the decade of the 1970s; by 1980 they represented 48 percent of total imports. By 1983, the ratio of developing country imports fell to 40 percent and declined further to 37 percent in 1984. The US GSP program, which allows duty-free entry to certain products of developing countries, is included in the above

results. US GSP imports grew from \$5.2 billion in 1978 to \$10.8 billion in 1983. During the 1970s, the percentage of US exports to developing countries rose to 37 percent by 1980 and reached 39 percent in 1982. In 1984, however, developing countries purchased only 34 percent of US exports as these countries continued to curtail imports as a result of the global slowdown (see Tables 2-1 and 2-2). A significant element in the growth of US exports to developing countries in the earlier period had been exports of manufactured goods, which increased as demand for construction equipment and other capital goods had grown in developing economies. The percentage total of US exports of manufactured goods to developing countries was up markedly in 1981 to 45 percent from 29 percent in 1970. In 1983, manufactured exports remained at about the 45-percent level. The developing world also has continued to purchase a growing share of US agricultural exports; this share was 42 percent in 1983, up from 40 percent in 1982.

Since 1980, US imports from non-petroleum-exporting developing countries have risen substantially, while US imports from petroleum-exporting developing countries have fallen. During this time the United States has improved its trade position with the petroleum exporters; its trade balance with non-petroleum exporters, however, has steadily deteriorated (see Table 2-3). In fact, the US trade deficit with non-petroleum-exporting developing countries now exceeds that with any other single country or regional grouping. The US trade deficit with all developing countries has grown from \$16.3 billion in 1982 to about \$48.6 billion in 1984. Our trade deficit with non-petroleum-producing developing countries is estimated to have increased about fivefold during this period, according to preliminary figures for 1984.

#### 2.2.4 Changes in Trade Composition With Developing Countries

Overall trends among developing countries suggest increasing specialization over time in the composition of their exported products. Whereas in 1979 US imports from developing countries constituted 23.7 percent of total US imports of manufactures, in 1983 their share had risen to 28.3 percent. Between 1979 and 1983 the value of US imports of manufactured products from developing countries rose 80 percent, while imports from developed countries increased by only 42 percent. In that period, the developing countries' share of US chemical imports rose from 8.9 percent to 13.7 percent, manufactured goods by material from 24.6 percent to 28.9 percent, machinery and transport equipment from 14.9 percent to 19.7 percent, and miscellaneous manufactured articles from 50.8 percent to 54.9 percent.

Table 2-1. Trends in US Imports, 1979-1983

Category	1979	1980	1981	1982	1983
<b>IMPORTS</b> (in \$ billions)					
Industrial Countries	113.7	126.3	143.2	143.7	154.4
Oil-Exporting Countries <sup>a</sup>	47.3	57.1	50.6	31.2	24.6
Non-Oil Developing Countries <sup>b</sup>	59.8	72.4	78.6	79.3	89.1
Top 7 NIC Trade Partners <sup>c</sup>	30.4	37.0	42.6	45.8	52.7
<b>ANNUAL PERCENTAGE CHANGE</b>					
Industrial Countries	12.0	11.1	13.4	0.3	7.5
Oil-Exporting Countries	35.3	20.8	-11.4	-38.3	-21.0
Non-Oil Developing Countries	23.6	21.1	8.6	0.9	12.3
Top 7 NIC Trade Partners	20.2	21.7	15.1	7.5	15.1
<b>PERCENTAGE DISTRIBUTION</b>					
Industrial Countries	51.2	49.2	52.4	56.4	57.2
Oil-Exporting Countries	21.3	22.2	18.5	12.2	9.1
Non-Oil Developing Countries	26.9	28.2	28.7	31.1	33.2
Top 7 NIC Trade Partners	13.7	14.4	15.6	18.0	23.8

<sup>a</sup>Oil-Exporting Countries as defined by the IMF: Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia Emirates, and Venezuela.

<sup>b</sup>Countries included in the IMF definition plus Taiwan.

<sup>c</sup>Top 7 Newly Industrialized Countries (NICs): Mexico, Taiwan, Korea, Brazil, Spain, Singapore, and Hong Kong.

<sup>d</sup>Does not add to 100 because of the exclusion of communist countries.

Sources: International Monetary Fund, *Direction of Trade Yearbook*, 1984; Department of Commerce, FT-990, Highlights of U.S. Export and Import Trade.

Table 2-2. Trends in US Exports, 1979-1983

Category	1979	1980	1981	1982	1983
IMPORTS (in \$ billions)					
Industrial Countries	106.7	125.4	129.4	117.2	117.6
Oil-Exporting Countries <sup>a</sup>	14.5	16.9	20.7	22.1	16.4
Non-Oil Developing Countries <sup>b</sup>	54.9	74.3	78.5	69.1	64.7
Top 7 NIC Trade Partners <sup>c</sup>	27.8	37.6	40.2	34.4	31.5
ANNUAL PERCENTAGE CHANGE					
Industrial Countries	29.2	17.5	3.5	-9.7	0.4
Oil-Exporting Countries	-9.2	17.1	22.3	6.6	-25.7
Non-Oil Developing Countries	33.3	35.3	5.6	12.0	-6.4
Top 7 NIC Trade Partners	37.6	35.3	6.9	-14.4	-8.4
PERCENTAGE DISTRIBUTION					
Industrial Countries	58.6	56.8	55.5	55.2	58.7
Oil-Exporting Countries	8.0	7.7	8.9	10.4	8.2
Non-Oil Developing Countries	30.2	33.7	33.6	32.6	32.5
Top 7 NIC Trade Partners	15.3	17.0	17.2	16.2	15.9

<sup>a</sup>Oil-Exporting Countries as defined by the IMF: Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia Emirates, and Venezuela.

<sup>b</sup>Countries included in the IMF definition plus Taiwan.

<sup>c</sup>Top 7 Newly Industrialized Countries (NICs): Mexico, Taiwan, Korea, Brazil, Spain, Singapore, and Hong Kong.

<sup>d</sup>Does not add to 100 because of the exclusion of communist countries.

Sources: International Monetary Fund, Direction of Trade Yearbook, 1984; Department of Commerce, FT-990, Highlights of U.S. Export and Import Trade.

Table 2-3. US Trade Balance With Developing Countries (LDCs),  
1980-83<sup>a</sup>  
(in \$ billions)

Category	1980	1981	1982	1983
All LDCs	-36.0	-27.3	-16.3	-30.0
OPEC	-37.6	-27.6	- 8.3	- 8.2
Non-OPEC	+ 1.7	+ 0.5	- 8.0	-21.8

<sup>a</sup>Fas/fas valuations for 1980-81, fas/cus for 1982-83 (FAS: Free Alongside of Ship valuation of exports; CUS: US Customs valuation basis of imports).

Source: Compiled from official statistics of the US Department of Commerce.

US agricultural imports from developing countries totaled \$9.6 billion in 1983, compared with \$8.8 billion in 1982 and \$10.4 billion in 1981, or an average of 44 percent higher for that 3-year period than for the 3 years 1975-77. The largest increases in imports from the 1975-77 period to the 1981-83 period were from the more advanced developing countries.

US agricultural exports to developing countries totaled \$14.4 billion in 1983, compared with \$12.8 billion in 1982 and \$16.0 billion in 1981. Since the mid-1970s, annual exports of US agricultural products to developing countries have more than doubled. As was the case with imports, the largest increases in exports have been to the more advanced developing countries. In 1983, the share of total US agricultural exports to developing countries was 40 percent; in 1982 and 1981 it was 35 and 37 percent, respectively. In most earlier years the developing country share was below 35 percent. Approximately three-fifths of all US agricultural exports to developing countries consist of bulk commodities such as grain and cotton, and two-fifths of higher value products such as fresh fruits and vegetables and processed foods.

The US economic recovery that began in 1983 is continuing to lead the way to a global resurgence of growth. Noninflationary growth is resuming in some industrial economies, such as Japan, West Germany, and the United Kingdom, while improved conditions in export markets have benefited the performances of some developing countries. Recent trends indicate that developing country

trade positions have improved markedly in the past year, which underscores the important contribution made by the robust US economy. Although some of the resultant improvement stems from increased export performance, import restrictions applied by developing countries during the worldwide recession have continued to constrain greater growth in trade. Whereas there was a 17-percent decline in 1983 in the value of exports of petroleum-exporting developing countries and a 1-percent decline in the value of exports of developed countries, the value of exports of non-petroleum-exporting developing countries rose by 2.5 percent. Non-petroleum-exporting developing country exports grew in volume by 5 percent, twice the rate for the exports of developed countries.

Protectionist pressures that surfaced during the recent worldwide recession continue to act as constraints to recovery. The US economy has experienced protectionist demands primarily as a result of its tremendous trade imbalance. Thus far, the United States has withstood these pressures and remains the largest, most open market in the world today for exports of developing countries. Export earnings provide developing countries with the means to finance critical imports for their economies and to meet their important debt service obligations. Income so derived is a more significant factor in the debt repayment ability of developing nations than external, official assistance. Recognizing that trade is the major stimulus to economic growth in all countries, the United States is pledged to continue its role as the leader of trade liberalization efforts in the global economy.

### 2.3 HUMANITARIAN CONCERNS

US foreign assistance programs serve the full range of US national interests: political, economic, security, commercial, developmental, and humanitarian.

Through foreign assistance programs, the people of the United States continue a proud tradition of helping others. US foreign assistance programs reflect the traditional humanitarian ideals of the American people for the promotion of the welfare of humanity, especially through the elimination of hunger, poverty, illness, and ignorance. These humanitarian concerns are a fundamental objective of US foreign policy, which calls for "the encouragement and sustained support of the people of developing countries in their efforts to acquire the knowledge and resources essential to development and to build the economic, political, and social institutions which will improve the quality of their lives." (Section 101, Foreign Assistance Act.) This human dimension of economic aid is consistently supported by the people of the United States. It was reaffirmed by the Commission on Security and Economic Assistance (November 1983) as well as the National Bipartisan Commission on Central America (January 1984).

The American people have a long history of concern, generosity, and altruism. They want to help the less fortunate--to relieve immediate pain and suffering caused by disasters and to alleviate conditions which prevent people from steadily improving their own lives. They believe that hunger and underdevelopment are everyone's problem. They will not tolerate inaction while 20 percent of the Earth's population lives in absolute poverty. Their principles demand action, and that action is manifest in US foreign assistance programs.

US foreign assistance programs give expression to this desire to alleviate suffering and to develop the essential elements for the achievement by the poor of the developing world of a life of dignity and hope. These programs are aimed at an undeveloped world in which the following conditions prevail:

- Average life expectancy is 58 years, compared with 75 in the United States.
- Average annual income is \$700 compared with \$11,070 in developed countries.
- About half of the people do not know how to read.
- Three out of five people do not have access to safe water.
- Children under the age of 5 years account for more than half of all deaths.

The American people realize that helping people to help themselves helps the United States. As President Dwight D. Eisenhower, under whose Administration the PL 480 program was initiated, said: "We could be the wealthiest and most mighty nation and still lose the battle of the world if we do not help our neighbors protect their freedom and advance their social and economic progress. It is not the goal of the American people that the United States become the richest nation in the graveyard of history." The US foreign assistance effort continues to help meet this challenge. In pursuing the noble goal of making life livable for millions of people less fortunate than we, we also help ourselves; the stable economic, social, and political progress of the developing world very much affects peace and prosperity in the United States.

Improving the well-being and earning capacity of the world's poor is an important objective of US development programs. Many projects are specifically directed toward increasing the capacity of the poor to address their basic human needs. Satisfaction of these needs rests fundamentally on increasing the overall income and earning potential of the poor. It also entails removing the constraints to the availability of food, shelter, health care, education, and employment of the poor, and the recognition of their right to participate in the making of decisions that affect them.

Food is the principal concern of most people in low-income countries. Hundreds of millions of people are so malnourished that their health is seriously threatened or impaired and their productivity is reduced. The Food for Peace (PL 480) program draws on the abundant production of American farmers to provide food aid primarily to the poor countries that suffer from food shortages. The Foreign Assistance Act also provides for donations of food for emergency/disaster relief as well as for programs to help needy people, particularly malnourished children. The US programmed \$1.6 billion (6.7 million grain equivalent metric tons) of food aid to developing countries under PL 480 in FY 1984.

The US response to Africa's widespread famine is a current example of traditional American humanitarian concerns. In FY 1984, AID programmed \$174 million (505,000 metric tons) of emergency food aid to the countries of Sub-Saharan Africa under PL 480 Title II. The food crisis worsened as the drought continued, so an additional \$226 million (630,000 metric tons) of emergency food aid was committed in the first quarter of FY 1985. AID continues to monitor that situation; an Inter-Agency Task Force on African Hunger was formed in October 1984.

The American people repeatedly demonstrate their compassion for people abroad affected by disasters, through the rapid provision of disaster and other forms of assistance. While an

expression of US humanitarian concern, such assistance also advances the US national interest by strengthening goodwill toward the United States. Natural and human-caused disasters are a constant threat to people throughout the world. Their highest toll is among the poor, who are the most vulnerable. The United States maintains a capacity to rush assistance to victims of such disasters, anywhere in the world; the United States responded to 41 new disasters in 33 countries in FY 1984. American assistance not only responds to such events, but it also endeavors to reduce the occurrence and impact of disasters through technical assistance and early warning systems.

Whatever the immediate objective of our assistance efforts, by helping developing countries, we help ourselves. In an interdependent world, these nations are increasingly important to the security and economic well-being of every American. Without their participation and cooperation, the United States cannot make progress on such global issues as the rational development of the world's resources, protection of the environment, nuclear nonproliferation, assurance of human rights, and the achievement of international peace and security.

The United States will continue to design sound and effective development policies and programs that will reach the world's poor, addressing their most basic needs. This requires a commitment not only to provide relief in times of sudden and dramatic national disasters, but also a long-term commitment to help countries address their fundamental institutional barriers to development.

Developing countries have made much progress in the 35 years or so since their modern, independent growth began and since the United States launched the concept of large-scale international development assistance. Satisfaction with past accomplishments must be tempered, however, with concern over today's problems and those of the rest of this century.

## CHAPTER 3

### DEVELOPMENT AND THE WORLD ECONOMY

#### 3.1 THE ECONOMIC ENVIRONMENT IN 1984

##### 3.1.1 Participation in the Economic Recovery

With the United States playing a lead role, global economic recovery was clearly established during 1983 and continued through 1984. In 1984, both the industrial and developing countries as groups achieved their best overall growth rates since the late 1970s. However, individual country performances in both groups varied widely, with many developing countries lagging behind the general recovery and facing serious stabilization and adjustment problems. Moreover, the developing countries' average growth rate was still far below the historical trend, and aggregate per capita income, although rising, was still below the 1980 level.

The prospects for 1985 are for a moderate slowdown to about 3.5 percent in the aggregate growth of economic activity in industrial countries as US growth slows to a more sustainable level, and for continued low average inflation rates. The problems within the industrial world that are of major concern to developing countries are protectionist pressures, interest rate levels, and structural problems, especially in European labor markets, that could hold down growth of developing countries' export markets.

Even with strong global expansion and freer market access for fairly traded goods, many developing countries' prospects for participation in the recovery are limited. They are burdened with legacies of their own past, unwise policies, including massive external debts, significantly reduced external private financial flows, and/or fundamental development problems and obstacles. To deal with these problems, they need to continue to implement stabilization and adjustment programs, to reestablish creditworthiness and thereby encourage private investment and loans, and to address long-term development issues. Even so, some countries, such as those in Africa that in recent years have suffered severe drought and famine, will need additional official development assistance if they are to make substantial progress.

##### 3.1.2 Expansion in the Industrial Countries

Recovering from the postwar record recession of 1980-83, the industrial countries as a group achieved nearly a 5-percent growth rate of real gross national product in 1984, the highest rate since 1976. This spurt contrasts sharply with the low or

negative rates of the previous 4 years and was achieved with about the same inflation rate as in 1983: 5 percent for consumer prices. However, there were wide disparities in performance among the industrial countries. The United States (despite a slowdown in the second half of 1984), Canada, and Japan achieved much higher rates of growth than the major European countries. The United States also made marked progress in reducing its unemployment rate, in contrast to Canada and many European countries where high unemployment rates persist. In addition, a few European countries still have relatively high inflation rates despite a downward trend. Disparities in growth and inflation performances among industrial countries are likely to be reduced in 1985.

### 3.1.3 Current Situation in the Developing Countries

As a result of the increased export demands of the expanding economies of the industrial countries and the domestic policies of developing countries, the latter as a group are experiencing the best rate of growth of the last 5 years, with the average expected to be around 3.5 percent for the year. For the first time since the global recession reached the developing countries with a lagged effect in 1981, output growth is clearly exceeding population growth on the average. However, the growth rate is still well below the average rate of over 5.5 percent achieved in the 1960s and 1970s. In addition, average per capita output today is still below the 1980 level, because growth has not yet compensated for the absolute reductions in per capita income experienced in 1982 and 1983.

Whereas most east Asian countries have been and are continuing to be successful in maintaining economic growth, serious constraints to economic growth exist in Sub-Saharan Africa and among some countries, particularly in the Western Hemisphere, with severe external debt service problems. Sub-Saharan Africa is the most seriously affected region. Real per capita output in many of these countries has been falling from already low levels since 1973, and except for a brief respite in 1974-75, the region has been plagued by drought since 1968. The current drought has severely affected at least 22 of the 38 Sub-Saharan countries (7 most acutely), and famine is present or threatening in many of them. Falling commodity prices since 1980 have not been completely reversed nor offset by increasing volumes; hence, total export earnings are still lagging. The problems are compounded by the effects of unwise past policies, including prices too low to encourage agricultural production, inefficient parastatals, uneconomic public investments, and discrimination against exports and the private sector.

However, the region with the worst recent growth record among developing countries is the Western Hemisphere. After

actually declining in output in 1982 and 1983, the developing economies of this region experienced positive growth in 1984. Nonetheless, although some countries were doing quite well, the overall regional rate of economic growth was below the rate of population growth, and hence for the fourth straight year per capita income has declined. The total decrease now exceeds 15 percent. This decline was mainly the result of serious debt-servicing problems followed by a loss of creditworthiness and sharp declines in private financing. Stabilization policies, belatedly implemented to curb inflationary pressures, improve government finances, and above all, deal with external debt service problems, have attained some success and, together with a considerable increase in exports, have resulted in substantial decreases in current account deficits between 1981 and 1984.

#### 3.1.4 Prospects for Economic Growth

For most developing countries, prospects for economic growth are closely tied to trade prospects. Much of the recent recovery in the developing countries is directly attributable to the sharp rise in their exports to the industrial countries, particularly to the United States. Non-petroleum-exporting developing countries' exports to industrial countries have grown in value by almost 20 percent in a year and a half from the last half of 1982 through the first half of 1984. The United States accounted for a major part of this increase, due to both its expanding economy and the appreciating value of the dollar. The higher value of the dollar made imports cheaper for the United States, and the rate of increase in US imports exceeded the growth rate of the US economy. Hence, the slowing of US growth to a more sustainable rate means that Europe and Japan will be more important as expanding markets for developing countries over the next few years.

Trade prospects are also dependent on market access and the ability of the country to respond to opportunities by producing the desired raw materials or products. Although industrial countries are continuing to reduce tariffs and duties, including some of importance to developing countries, there have also been moves to restrict international trade in certain product areas through import quotas and bilateral voluntary trade restraint agreements. This growing protectionist pressure casts doubts on future market access for developing countries that have the ability to respond to the trade opportunities and hence on the degree to which they will be in a position to share in global growth. This is a problem particularly for many exporters of manufactures, notably the newly industrialized countries.

Even when market access exists, many developing countries are not in a good position to respond to the trade opportunities

created by the industrial countries' expansion. Some have pressing crises, such as droughts or other natural disasters, or severe external financing problems. Many developing countries still adhere to policies that hamper export growth. Most of the low-income, least developed countries suffer from basic development problems and obstacles, such as lack of natural resources, hostile climates, poor soils, environmental degradation, high rates of illiteracy and disease, population pressures, inadequate physical infrastructure, and insufficient numbers of private entrepreneurs.

Many of the major commodities produced by particular developing countries have not experienced much increased demand, and the price increases normally associated with industrial countries' recoveries have been moderated this time. In general, the demand for nonpetroleum commodities has not been strong in this recovery, reflecting lower stock rebuilding in industrial countries. Nonpetroleum commodity prices as a group have improved only slightly over the last 2 years. Their prices remain low in historical terms and, after peaking in March 1984, their price trend has been downward. This weakness in commodity prices (expressed in dollars) reflects to a significant extent the appreciation and strength of the US dollar, although high stocks and oversupply are contributing factors.

#### 3.1.5 External Debt and Debt Repayment Problems

Since 1982, the external accounts of the major debtor countries have improved significantly, and the situation is no longer viewed as a threat to the entire international financial system. The non-petroleum-exporting developing countries have reduced their total current account deficit from \$109 billion in 1981 to around \$45 billion in 1984. The timely actions and cooperation of official creditors, private lenders, and the involved developing countries have led successfully, at least for the time being, to essential economic adjustments, to a restructuring and rescheduling of debts and debt payments, to provision of temporary additional bridging and adjustment financing, and to continuing access to private credit. The world economic recovery helped to relieve the crisis by boosting the exports of the debtor countries. In general, the ratios of external debt to GNP and to exports have stabilized at around 35 percent and 150 percent, respectively, for non-petroleum-exporting developing countries and are expected to decline slowly. Likewise, the ratio of debt service payments (principal and interest) to exports has declined slightly to around 22 percent, although, because of high interest rates and amortization schedules, the ratio is expected to increase somewhat over the next several years.

However, many developing countries continue to have serious current account and debt service problems. The need to adjust to these realities causes problems, often severe, for many countries both in terms of their short-term economic conditions and their medium-term growth prospects. The contractionary and restrictive policies applied by developing countries in 1982 and 1983 to achieve lower imports and hence improved current accounts have had serious repercussions on their economies, particularly for some countries in the Western Hemisphere. Not only have standards of living been lowered, but forced reductions in imports frequently have harmed production and exports by causing shortages of spare parts, raw materials, and capital equipment. In 1984, rapid export growth did allow some loosening of import restrictions and an increase in imports. Nonetheless, for many years to come, these countries will continue to devote a considerable portion of their export earnings to servicing debts.

#### 3.1.6 Investment and Financial Flow Prospects

The deterioration in the ability of developing countries to service their external debts out of export earnings, as well as the general impact of the recession, led to a decline in private financial flows to non-petroleum-exporting developing countries from \$70 billion in 1980 to an estimated \$21 billion in 1984. For some developing countries, the decline in private inflows of capital coupled with debt service payments (and in some cases capital flight) has resulted in a net outflow of capital. For many other debtor countries, economic adjustment programs supported by the International Monetary Fund have maintained capital flows, although generally at reduced rates.

Although official development assistance (ODA) has assumed a greater relative role in financing development, it has not been increasing in real terms. In 1983 ODA from Development Assistance Committee (DAC) donors was \$27.5 billion, a small decline from 1982 in both nominal and real terms. As a percentage of the donors' GNP, this represented a decline from 0.38 to 0.36 percent. Assistance from OPEC donors also decreased. In 1984, a small increase in the dollar level (but not in real terms) of assistance from all sources is estimated to have occurred. However, to meet their development requirements, developing countries need to import capital. Hence, there is an urgent and critical need for developing countries to reestablish their creditworthiness in order to regenerate private direct investment and lending flows.

#### 3.1.7 Needed Adjustments and General Outlook

Many of the developing countries are currently engaged in making the necessary adjustments in their policies and economies

in order to achieve higher growth rates in the medium and long terms. The range of adjustments includes devaluing currencies, freeing or at least raising controlled prices, eliminating or reducing subsidies on consumer goods, deregulating businesses and public enterprises, encouraging foreign investment, and decreasing government deficits. Although these adjustments are expected to lead to substantial improvements over time, many of these countries will need interim, short-term support.

The current international environment, with the exception of the existing debt situation, is more favorable to developing countries than it has been over the last 4 years. However, protectionist pressures have generated concerns about the developing countries' prospects for growth of export opportunities and, as a consequence, for economic growth. In addition, many developing countries, because of the legacy of past, unwise policies, the need for economic adjustments, and the existence of developmental problems and obstacles, are not in a strong position to respond to existing opportunities.

## 3.2 INTERNATIONAL TRADE

### 3.2.1 US Trade Policy and Developing Countries

The United States strives to formulate national and international economic policies that contribute to the development efforts of developing countries and their integration into the international trading system. These policies, which are consistent with US obligations under the General Agreement on Tariffs and Trade (GATT), are intended to encourage the pursuit of sound economic and trade policies based on the principles of market forces and liberalized trade.

Progress has been achieved in implementing the GATT Ministerial Work Program adopted in November 1982 to strengthen the GATT system. Included in the Work Program was an examination of the prospects within GATT to facilitate and expand trade among developed and developing countries. At its November 1984 session, contracting parties agreed to continue efforts to promote the expansion of trade opportunities and to continue work on the various aspects of the GATT Ministerial Work Program. It is hoped that these efforts will provide the basis for additional trade liberalization by developed and developing countries.

A key US objective for strengthening the trading system is the maintenance of open access to the US market for fairly traded goods, particularly those exported from developing countries. In certain circumstances, temporary preferential access is granted to exports from developing countries so that they may compete on a more equal footing with the products of traditional, developed country suppliers to the US market.

The granting of these temporary preferences is based on the expectation that as their individual levels of economic development increase, developing countries will impose a greater degree of discipline over their trade-distorting practices. This includes addressing barriers to market access and other government-introduced distortions. Developing countries' adherence to this principle will continue to be an important consideration governing US trade policy in the years ahead. The Generalized System of Preferences and the Caribbean Basin Economic Recovery Act (which are discussed below in Sections 3.2.4 and 3.2.5) are two examples of special measures adopted by the United States to assist the development efforts of developing countries through the expansion of trade opportunities.

The United States is the largest, most open market for the products of developing countries. More than one-fifth of all the merchandise exported from the non-petroleum-exporting developing

world is now shipped to the United States. The United States purchases nearly 40 percent of these developing countries' exports to the industrialized countries and accounts for over one-half of the developing countries' manufactured goods exports to the industrialized countries. The exports of developing countries to the United States increasingly are more sophisticated, higher value manufactured goods. During the past 4 years imports of manufactured goods from developing countries have grown by over 80 percent. Most of this increase is attributable to growing imports of electrical machinery, telecommunication equipment, and office machines. At the same time, there has been substantial growth in developing countries' exports to the United States in traditional manufacturing sectors--sectors in which the United States is often criticized for being protectionist. Between 1979 and 1983, US imports of apparel from developing countries grew by 72 percent; US imports of steel from developing countries increased by 72 percent and footwear imports by 85 percent.

In 1982, US imports from all developing countries totaled \$99 billion. This figure grew to \$115 billion in 1983, and is projected to jump to \$120 billion in 1984, an overall increase of roughly 20 percent. During this period, US exports to all developing countries fell by almost 15 percent, and by almost 5 percent to non-OPEC developing countries. Since 1982, the US trade deficit with all developing countries has grown from \$16.3 billion to \$45.5 billion. Our trade deficit with non-OPEC developing countries has quadrupled, from \$8 billion to \$33 billion.

### 3.2.2 The Breakdown in Trade Finance

The world economic recession and the inception of the debt crisis in 1981 had a contractionary effect on developed country exports to the high-debt developing countries. In the last 2 years, the United States lost almost \$20 billion in sales to Latin American countries alone. High-debt developing countries that have experienced severe liquidity crises have often rescheduled credits, including trade credits; rationed scarce foreign exchange; and placed temporary moratoria on payments to creditors. In this environment many official and private creditors took steps to limit their exposure in high-debt developing countries by reducing the availability of credits for trade and investment.

As a result, financially constrained countries have been seeking to promote these exports by nonconventional means, for example, countertrade, clearing arrangements, and soft currency payments. Although some of these arrangements appear to be useful in filling the gap left by the contraction of short-term credits, others, particularly countertrade, are inefficient, violate most favored nation principles, and undermine market mechanisms.

Based on preliminary data of short-term bank and nonbank claims on developing country borrowers for 1984, there are indications that an expansion in credits took place as some countries reestablished creditworthiness. For many countries, however, the level of trade credits remains significantly below levels attained prior to the debt crisis. In particular, open account trade financing by nonbanking sources remains substantially reduced.

### 3.2.3 Trade Actions of Interest to Developing Countries

Pressures for the imposition of protectionist measures were particularly strong in the United States in 1983-84. Five complaints alleging serious injury from increased imports were filed, and import relief was requested for stainless steel table flatware, nonrubber footwear, canned tuna fish, unwrought copper, and certain carbon and alloy steel. These petitions were filed by domestic industries, trade associations, and labor unions in accordance with the provisions of section 201 of the Trade Act of 1974. The US International Trade Commission (ITC) conducted a thorough investigation of each petition. In the cases of stainless steel table flatware, nonrubber footwear, and canned tuna fish, the ITC determined that imports were not a substantial cause of serious injury, and the complaints were rejected.

In the two remaining cases involving unwrought copper and certain carbon and alloy steel products, the ITC determined that imports were a substantial cause of serious injury to the domestic industry. The President subsequently decided not to provide import relief in the copper case, determining that it would not be in the national economic interest. A program of voluntary restraint agreements was established for the steel items.

Import restrictions terminated since the last Development Coordination Committee (DCC) report involved two similar appeals. The global quotas imposed on clothespins were lifted on February 17, 1984. The additional tariffs on certain porcelain-on-steel cookware expired on January 17, 1984.

The United States continues to be a signatory to the Multi-fiber Arrangement (MFA), the international arrangement governing trade in textiles and apparel, which will expire in July 1986. The objectives of the MFA are to ensure orderly development in the export of textiles and apparel, while minimizing disruption to the trading country's market. Developing countries are not favorably disposed to the terms of the MFA because of the restrictions imposed on what remain the leading export products of the Third World. Discussions will begin in GATT in the summer of 1985 concerning the future of MFA beyond its expiration in July 1986.

#### 3.2.4 The Generalized System of Preferences<sup>1</sup>

On October 30, 1984, President Reagan signed the Trade and Tariff Act of 1984, which included statutory authority to extend the US Generalized System of Preferences (GSP) through mid-1993. The program of temporary, duty-free tariff preferences for over 3,000 tariff classifications of goods imported from 140 beneficiary countries and territories covers a broad range of manufactured and semi-manufactured products and agricultural items. Textiles, apparel, footwear, and leather-related products as well as import-sensitive steel, glass, and electronic articles are excluded by statute from GSP eligibility. The program accounted for \$10.8 billion worth of imports from developing countries in 1983.

The Administration obtained some important changes in the 1984 GSP authority. The revised program provides the potential for further liberalization and graduation from duty-free preferences under the President's discretionary authority. The new authority draws additional attention to US efforts to ensure that the benefits of the GSP are accruing to those countries most in need of preferential treatment in order to compete in the US market. In making GSP eligibility determinations, the President is directed to take into account the actions of developing countries. These factors include a consideration of the extent to which the beneficiary, at a level commensurate with its individual level of development, is providing access to its markets for US goods and services, is reducing or eliminating trade-distorting investment practices, and is providing adequate protection for intellectual property rights and internationally recognized worker rights. Finally, the new authority provides unlimited access for GSP-eligible articles from countries designated by the President as least developed.

#### 3.2.5 Caribbean Basin Economic Recovery Act

Together with Canada, Mexico, Venezuela, and Colombia, the United States has undertaken efforts to promote stability and prosperity in the Caribbean Basin. The small and fragile economies of this region have been seriously affected by escalating costs of imported oil, declining prices for their major exports, a shrinking of export markets due to worldwide recession, and a decline in tourism.

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<sup>1</sup>For additional information on the Generalized System of Preferences program, contact the GSP Information Center, Office of the United States Trade Representative, Executive Office of the President, 600 17th Street Northwest, Washington D.C. 20506 (202 395-6971).

In an effort to respond to the situation faced by these countries, the Administration proposed the Caribbean Basin Economic Recovery Act (CBERA), which was approved by Congress in July and signed into law by the President on August 5, 1983. CBERA is a multifaceted development program combining trade and tax liberalization with tailored financial assistance programs. Intended to promote self-sustaining revitalization of the economies of the 27 nations of the Caribbean basin, the measures are designed to catalyze expansion of local productive capacity in response to the opening of new markets for Caribbean exports, and to assist the development of key sectors of their economies, especially tourism.

The centerpiece of the US program is the temporary extension of one-way, duty-free access to the US market for goods from designated Caribbean nations. Duty-free treatment is extended for 12 years on all products, with the exception of textiles and apparel, footwear, petroleum, leather apparel, and canned tuna fish. Approximately 80 percent of these countries' nonpetroleum exports currently enter the United States duty free, either on a most-favored nation basis or under the US GSP program. CBERA will ensure the security of market access for these products, while providing an incentive for Caribbean countries to diversify their production of exports.

The program also offers the beneficiary nations the prospect of attracting important new investors to the agricultural and manufacturing sectors of their economies. By providing special access to the US market under a concessionary trade regime, the program enhances the attractiveness of the Caribbean as a target for new venture capital. New capital is expected to generate new export income in nontraditional as well as traditional export products. These export earnings should help to reduce social tensions through improved living conditions in these Caribbean countries.

The trade, investment, and tax elements of CBERA were developed in close consultation with the governments of the region and with the private sectors and labor movements in each of the countries. Of equal importance has been the input of US entrepreneurs with experience in this region. All groups contributed greatly to the choice of specific program elements, and there has been a strong positive reaction from the public and private groups who are the targets of this program's incentives.

### 3.2.6 US Bilateral Investment Treaty Program

Bilateral Investment Treaties (BITs) with developing countries have as their purpose the establishment of a mutually agreed-on legal framework for the treatment and protection of US investment, and as such form a part of this Administration's

market-oriented approach to economic development. BITs provide (1) national and most-favored nation treatment for investors, (2) conditions for expropriation in accord with international standards for determining compensation for expropriations, (3) free transfers of capital and other funds, and (4) provisions for settlement of disputes, including third-party arbitration.

The United States has signed treaties with Egypt, Panama, Senegal, Haiti, and Zaire. It has initialed BITs with Morocco and Cameroon and is in the process of negotiating with 12 other countries. These treaties should help give assurance to US investors and encourage direct investment. Such investment can act as a catalyst for growth and development of the developing countries and can provide new technology and management skills.

### 3.3 EXTERNAL INDEBTEDNESS

#### 3.3.1 The Origins of the Debt Problem

The immediate cause of the widespread debt-servicing problem in the period 1980-82 was the rise in oil prices in 1979-80, which led to stagnation and a deterioration in the terms of trade for the developing countries and inflation and rising rates of interest in the developed countries. The shift to a strong anti-inflation policy in the United States and elsewhere in the Organization for Economic Cooperation and Development (OECD) led to even higher interest rates. The longer term causes were the 1973-74 oil price increase, with its adverse effect on developing countries' balance of payments and the expansion of medium-term variable interest rate borrowing that was used to finance them. Both the impact of these developments and the responses to them varied from place to place.

Those countries fared best that kept control of internal demand, maintained realistic exchange rates, favored export promotion relative to import substitution in their past development strategy, and relied relatively less on variable interest bank credit. Those that failed to adjust government spending and control inflation, to maintain proper exchange rates and increase export volume, and used bank credit as a major source of balance of payments financing had the greatest difficulties. For many of them, debt service ratios rose sharply and ordinary bank lending began to dry up.

#### 3.3.2 The Current Situation

For non-petroleum-exporting developing countries as a whole, the debt service ratio rose from 18 percent in 1980 to 25 percent in 1982. For the Latin American region, which was much more heavily affected, the ratio rose from 36 percent in 1980 to 55 percent in 1982. In Asia, where the only important debt restructuring has been in the Philippines, the debt service ratio, which was 8 percent in 1980, rose to 12 percent in 1982.

#### 3.3.3 The Debt Strategy

Faced with the diversity of the debt situation, the summit countries evolved a debt strategy as part of their response to global economic problems. It was set forth in the Williamsburg Summit communique in 1983 and reconfirmed at the London Summit in June 1984. It consists of five major elements: (1) economic adjustments by the debtor countries; (2) economic recovery, sustained growth, and open markets in the industrialized countries; (3) adequate resources for the International Monetary Fund

(IMF); (4) continued commercial bank lending for countries making determined adjustment efforts; and (5) readiness to provide bridge financing, as necessary, from central banks and governments on a case-by-case basis.

The premises of this policy are as follows:

- The major debtors whose economies were in trouble were not basically insolvent but had serious international cash flow problems of internal and external origin. These could be solved if they effectively adjusted their domestic policies and maintained realistic exchange rates and if external factors became more favorable, such as a rise in demand and a fall in interest rates.
- There could be no general across-the-board external solution, because the impact of the world stagflation impinged unevenly on different economies and because many of the problems were internal.
- Because it was the growth of private credit that was mainly responsible for the high levels of debt service, the primary responsibility to negotiate with the debtors lay with private banks.

The first and most basic point of the strategy was that countries had to adjust their own economies to the realities of their balance of payments. That meant that they must establish control over the money supply and the public sector deficit and establish and maintain a realistic exchange rate. It was agreed that the program should be carried out in the framework of an IMF stand-by or Extended Fund Facility (EFF), because the IMF could provide advice and credit and, through its participation, help restore the confidence of foreign creditors. To further this objective, governments stood ready in a number of cases to provide temporary bridging financing until IMF programs and debt restructuring could be effective. The resources of the IMF were expanded, and for the first time, the General Agreement to Borrow was to be activated to meet the needs of developing countries.

The other major target was the restoration of noninflationary growth in the developed world, to be achieved by the combined policies of the major industrial nations. Only then would debtors be able to begin to earn their way out of their debt predicament. Finally, the strategy requires continued lending by the commercial banks so that developing countries, particularly the major debtors, can expand and finance the normal current account deficit of a growing developing country. There is really no alternative, because none of the major developed countries is

prepared to expand its official assistance to the extent necessary to substitute for the role of net new bank credit in the financing of international trade. If adequate levels of commercial bank credit fail to materialize, developing countries will be required to maintain even larger trade account surpluses in order to generate foreign exchange for debt service obligations.

Alternatively, much attention has been placed on additional foreign direct investment in developing countries as a replacement for bank lending. Although direct investment can make an important contribution to capital flows, even a substantial increase from current levels would not eliminate the need for borrowed capital. In addition, many investors are unwilling to commit new funds because of restrictive developing country policies toward investment.

From 1982 to 1984, the decline of London Interbank Offer Rate (LIBOR), prime rates, and spreads, now well below their peaks in 1981-82, led to a leveling off of interest and amortization payments. Since 1982, exports have been increasing again. As a result, in 1983 and 1984 the debt service ratio for all non-petroleum-exporting developing countries declined to 22 percent; in Latin America, the ratio declined to 48 percent in 1983 and an estimated 43 percent in 1984.

After 2 years, it has become clear that certain countries have successfully weathered the initial stages of readjusting their economies to the realities of the international economy and have successfully restructured their debts. But many of these rescheduling agreements have grace periods that will run out in 1985 and 1986, with the result that amortization payments will rise steeply. This problem was addressed in the London Summit Communique:

[The Summit countries attach particular importance to]...cases where debtor countries are themselves making successful efforts to improve their position, encouraging more extended multi-year rescheduling of commercial debts, and stand ready, where appropriate, to negotiate similarly in respect of debt to governments and government agencies.

By making a multiyear commitment, the bankers and governments would be stating that they had increased confidence in the performance of the debtor and were prepared to relax the close surveillance of economic performance that was necessary in the crisis period and revert to less intensive monitoring through some form of IMF consultation procedures. The United States expects that this technique will be an important step in the process that leads back to creditworthiness and normal access to the international capital market. Only a few countries have reached that point. Mexico was the first to benefit in an agreement with

private banks that restructured \$48.5 billion, about half the country's total debt. This consisted of principal payments falling due in the period 1985-90. Venezuela and Ecuador also have agreed with the banks in principle for a similar rescheduling.

#### 3.3.4 The Debt Restructuring Process

As noted in Table 3-1, the principal creditors of developing countries, in order of importance, are commercial banks, developed country governments, credit from nonbank foreign business, and multilateral institutions.

Under normal circumstances, maturing credits are in effect replaced by fresh credits for other purposes so that the borrowing country is not obligated to finance a net capital outflow from surpluses in other parts of its balance of payments. If creditors become unwilling to grant sufficient new credits, the debtor country may encounter difficulty in meeting maturing repayment obligations and may be obliged to seek a restructuring.

A representative group of bank creditors generally negotiates a restructuring with a debtor in what is known as the "London Club," although most of the meetings concerning Latin American countries have actually been held in New York. The pattern that has been developed since 1982 is to establish a bank advisory committee representing banks with interests in the country, with a lead bank selected to organize the negotiations. The procedure involves the gathering of data on the specific credits outstanding; a presentation by the debtor on its economic and financial position and its policies, including the status of its relationship with the IMF; and the negotiation of an amount of debt relief that both parties are prepared to accept as consistent with the debtor's ability to generate foreign exchange. Banks generally condition the agreement on the continuation of appropriate economic policies through compliance by the debtors with an IMF adjustment program. They have not included interest payments in a restructuring package to avoid having these loans classified by the regulatory authorities as nonperforming and because of the effect on their incomes. There is also often a parallel negotiation to obtain new credits from the same group of banks that hold the country's outstanding debt.

Government creditors usually negotiate in an informal forum known as the "Paris Club," utilizing broadly similar procedures. The Club grew up as the best means of ensuring that the debtor and its various creditors could arrive at a consensus on rescheduling and that all creditors would be treated equally. Government creditors, unlike banks, are prepared to reschedule interest

as well as principal. There is usually no discussion of new credit; that decision is taken by individual governments. Multilateral institutions do not reschedule their own credits but do participate as observers and are ready to lend their good offices (also to the London Club) when requested by the direct participants. Being unaffected by rescheduling, their lending programs continue and may even increase as the debtor adopts effective adjustment measures.

Table 3-1. Creditor Claims on Developing Countries as of the End of 1983  
(in \$ billions; partly estimated)

Creditor	Non-Oil-Exporting Debtors <sup>a</sup>	Major OPEC Debtors <sup>b</sup>	Total
Commercial Banks <sup>c</sup>	337	54	391
Creditor Governments <sup>d</sup>	137	14	151
Other (includes non-banks and unallocated) <sup>d</sup>	129	23	152
Multilateral Institutions <sup>d,e</sup>	83	5	88
Total <sup>d</sup>	686	96	782

Note: There is no statistical series that includes all developing country debt. This table is put together from several sources, adjusting for different coverage and duplication whenever possible. Columns may not add to totals because of rounding. The estimate should be regarded as providing orders of magnitude only.

<sup>a</sup>Excludes Offshore Banking Centers, Ecuador, Indonesia, Iran, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela.

<sup>b</sup>Ecuador, Indonesia, Nigeria, and Venezuela.

<sup>c</sup>Bank for International Settlements.

<sup>d</sup>International Monetary Fund, World Economic Outlook, September 1984. IMF data include data for IMF members. Therefore, Eastern European countries, except Hungary, Romania, and Yugoslavia, are excluded.

<sup>e</sup>Excludes amounts owed to IMF.

Private nonbanks, such as bondholders and suppliers, do not generally reach restructuring agreements because of the difficulty in forming a representative group. Debtors may either continue to meet obligations to such creditors in order to retain good will and avoid the need for negotiations on de minimus amounts, or propose a unilateral rescheduling formula, when the amounts outstanding are important. However, arrearages may accumulate for some time before being settled.

### 3.3.5 Evolution of Practices

Although both private bank and official creditors seek to maintain certain common principles in each negotiation, the recent surge in restructurings has led to some evolution in practices. Steering committees of banks, established at the time of an initial restructuring negotiation, have in many cases maintained close contact with debtor governments in order to complement negotiations with new money agreements and follow-up restructurings. Close linkage with IMF-supported adjustment programs has increased. Banks have shown the greatest flexibility toward those debtor countries that have successful adjustment policies, and have granted improved terms (lower interest rate spreads and longer maturities) in nearly all cases since late 1983 that involved previous restructurings.

The reschedulings in Mexico, Venezuela, and Ecuador--where general agreements have been reached to consolidate principal fully due over 5-6 years over new, relatively long repayment periods--represent a distinct shift and liberalization of practice. The normal consolidation period heretofore has been 1 year to 18 months.

Since the advent of widespread debt-servicing difficulties in the latter part of 1982, the frequency of restructuring has increased sharply. With respect to reschedulings of medium- and long-term debt owed to private banks during the period January 1983 to August 1984, a total of 27 agreements were signed. These cover 21 countries, only 2 of which are not members of the IMF. The amounts restructured under these agreements totaled \$46 billion; this represents 23.6 percent of the total claims of banks on these 21 countries outstanding as of the end of 1983 (\$195.0 billion). Additional debt relief was provided by agreements to maintain or roll over existing short-term debt. The list of specific rescheduling agreements is set out below in Table 3-2.

In the Paris Club, creditor governments adjust rescheduling terms in light of the balance of payments prospects for the rescheduling country. In recent years, the generally weak

Table 3-2. Commercial Bank Reschedulings of Loans to  
Developing Countries, January 1983 to August 1984  
(in \$ millions)

Country	Date	Amount
Brazil	February 1983	4,532
	January 1984	5,350
Chile	July 1983	3,400
Costa Rica	September 1983	609
Cuba	December 1983	130
Dominican Republic	December 1983	370
Ecuador	October 1983	1,835
	August 1984	632
Guyana	July 1983	25
	January 1984	29
Jamaica	June 1984	160
Madagascar	September 1983	70
Malawi	March 1983	57
Mexico	August 1983	20,200
Nigeria	July 1983	1,350
	September 1983	480
Peru	July 1983	380
Poland	November 1983	1,400
Romania	July 1983	567
Senegal	February 1984	114
Sierra Leone	January 1984	25
Sudan	March 1983	646
	April 1984	800
Togo	October 1983	84
Uruguay	July 1983	575
Yugoslavia	October 1983	950
	May 1984	1,250
Total		<u>46,020</u>

balance of payments prospects for many developing countries have led, in individual cases, to an increase in the amount of debt relief provided through the consolidation of a larger percentage of amortization and interest falling due to be repaid over longer grace periods and overall maturities. In addition, Paris Club creditors have included in rescheduling agreements "goodwill clauses" in cases where the country is expected to need future debt relief. The clauses indicate the willingness of creditor governments to consider a future rescheduling, provided Paris Club conditions are met (e.g., an approved IMF standby arrangement and repayment of obligations in accordance with earlier agreements). They provide some assurance of future debt relief to a debtor country with a debt problem of a long-lasting nature, while at the same time maintaining Paris Club conditionality.

With respect to debt owed by non-OPEC developing countries to official creditors, a total of 23 rescheduling agreements covering 20 countries were reached during the period January 1983 through June 1984. The amount rescheduled under these agreements was almost \$14 billion (see Table 3-3).

### 3.3.6 Conclusions

The procedures governing restructuring agreements to date have worked satisfactorily. Lenders have shown patience and flexibility, and there has been an evolutionary development of practices and procedures. A large number of total claims on countries experiencing problems have already been or are being restructured through existing institutions and approaches. Consequently, the United States sees no need for an alternative or systemic restructuring of developing countries' external indebtedness. Little would be gained from a systemic approach to restructuring, and a number of disadvantages and problems would result from an effort to develop such an approach:

1. Debtor countries would have less incentive to adopt necessary adjustment policies, resulting in even greater debt servicing problems in the future.
2. It is not possible to develop criteria that could adequately take into account differences among debtor countries and their creditors.
3. The supply of new credit from lenders subject to drastic past and possible future restructuring would dry up.

Table 3-3. Government Creditor Reschedulings of Loans  
to Non-OPEC Developing Countries,  
January 1983 through June 1984  
(in \$ millions)

Country	Date	Amount
Brazil	November 1983	3,478
Central African Republic	July 1983	13
Costa Rica	January 1983	200
Ecuador	July 1983	200
Ivory Coast	May 1984	356
Liberia	December 1983	17
Madagascar	March 1984	89
Malawi	October 1983	26
Mexico	June 1983	2,000
Morocco	October 1983	1,489
Niger	November 1983	36
Peru	July 1983	400
	June 1984	1,000
Romania	May 1983	736
Senegal	December 1983	72
Sierra Leone	February 1984	25
Sudan	February 1983	536
	May 1984	269
Togo	April 1983	300
	June 1984	75
Yugoslavia	May 1984	800
Zaire	December 1983	1,497
Zambia	May 1983	375
Total		<u>13,989</u>

### 3.4 PRIVATE DIRECT INVESTMENT

#### 3.4.1 Trends in Private Direct Investment

The increase in capital investment within developing countries provided by private foreign direct investment could be one of the most significant economic contributions made to developing countries. A larger pool of funds would permit increased levels of capital formation and economic activity. In addition, foreign direct investment can provide employment opportunities for both skilled and unskilled labor, as well as access to newer technology, marketing, and management systems, and can contribute to improvement in the balance of payments of the recipient country through increased exports.

From 1975 to 1980, direct investment by OECD countries in developing countries made an important contribution to the economic growth registered in developing countries. During those years, US direct investment in developing countries grew by an annual average rate of 17 percent, outpacing the 13-percent increase in investment for developed countries. The growth of foreign direct investment in the developing world marked at least a temporary reversal of the pattern established in the period 1950-1974, when the US direct investment position increased at an average annual rate of 5.3 percent for developing countries compared with 12 percent for developed countries.

The 1981 debt crisis brought a slowing of these historically high rates of investment in many developing countries. The US direct investment position in Central and South America actually declined in 1983. US investment in Central America amounted to \$10.3 billion in 1983, down from \$10.8 billion in 1982. In South America, US investment was down from \$20.1 billion in 1982 to \$19.8 billion in 1983. For Latin America as a whole, where 60 percent of US direct investment is located, investment in manufacturing peaked at \$15.8 billion in 1981 and declined to \$14.7 billion in 1983. Direct investment in the petroleum sector continued to show increases, rising from \$4.8 billion in 1981 to \$6.8 billion in 1983.

In contrast to Latin America, the US direct investment position in the Middle East increased by 26 percent in 1983. Developing nations in Asia and the Pacific experienced a more modest 7-percent rise in US direct investment, primarily in petroleum and services. The US position in Africa remained essentially unchanged in 1983 at \$5.2 billion, excluding South Africa.

There are many reasons for the slowdown of US investment in some of the developing countries:

- US companies had little incentive to establish, acquire, or expand foreign affiliates, given sluggish economic conditions abroad.
- Developing country policies and procedures for shaping and controlling foreign investment continued to be restrictive in many countries. These include official screening and approval procedures, performance requirements, and restrictions on repatriation of capital and income.
- Uncertainty persists in the US business community about the ability of developing countries to sustain significant economic growth over the medium term without increased availability of financial resources.

A number of signs point to an improvement in the prospects for foreign direct investment in parts of the developing world. Many of the high-debt countries appear to be making strides toward economic recovery that could increase demand for resource transfers from developed countries in the form of capital and technology. Certain developing countries, such as Ecuador and Colombia, have taken steps to liberalize investment codes that were previously quite restrictive.

However, many developing countries' more positive attitudes towards foreign investment have not yet been reflected in substantive policy reforms. Some of the most heavily indebted countries (e.g., Brazil and Mexico) continue to impose extensive restrictions on inward investment and have in fact stepped up their use of trade-related performance requirements. The prospects for substantial increases in foreign direct investment will be clouded as long as these practices persist.

#### 3.4.2 US Policy

In September 1983, President Reagan issued a major policy statement on international investment policy that emphasized the high priority the United States attaches to improving our investment relationship with developing countries. The President's statement noted that US objectives include the following:

- Placing greatest emphasis on minimizing government intervention in the private sector decision-making process as the best way of fostering a freer climate for trade and investment
- Exploring ways to extend the principles embodied in the OECD instruments (e.g., national treatment and the right of establishment) to non-OECD countries

- Encouraging the multilateral development banks to develop new programs that strengthen the private sector role in financial flows to developing countries
- Protecting investors' physical, financial, and intellectual property
- Concluding bilateral investment treaties with interested countries

#### 3.4.3 The Trade and Tariff Act of 1984

The Trade and Tariff Act of 1984 greatly enhances the Executive Branch's authority to implement US investment policy. Under the Act, investors may now bring complaints against certain foreign investment practices. The President was provided new authority to negotiate international agreements on barriers or other distortive mechanisms placed on foreign direct investment. The Office of the US Trade Representative is now permitted to impose duties or other import restrictions on products or services of countries using export performance requirements levied after passage of the Act. Finally, the President must take into account a country's use of trade-distorting investment measures in determining (1) whether to designate a country as a GSP beneficiary and (2) whether to grant product-specific waivers of GSP competitive-need limits. (For further details, see Section 3.2.4, above.)

The International Recovery and Financial Stability Act of 1983 provides that the US Government take into account a country's use of trade-distorting measures in reviewing requests for financial assistance.

#### 3.4.4 Current US Efforts to Facilitate Investment Flows

The US Government provides considerable assistance to facilitate investment flows. Included in this assistance are US Government bilateral programs such as those of the Overseas Private Investment Corporation, US support for multilateral private sector-oriented institutions such as the International Finance Corporation, and the Bilateral Investment Treaty Program. AID programs, such as those of the Bureau for Private Enterprise, and the Trade and Development Program also facilitate private investment flows.

#### 3.4.5 OECD Initiative and Other Multilateral Efforts

In May 1984, the OECD ministers agreed to launch a program to analyze the key determinants of foreign direct investment in developing countries and to hold discussions with developing countries on improving investment flows. The OECD is now studying ways of implementing the May Ministerial.

The joint meetings of the Development Committee and the Interim Committee of the World Bank and the IMF in April 1985 will also include extensive discussions on the importance of capital flows to developing countries and on the obstacles to these flows.

The United Nations is drafting a global code of conduct on transnational corporations, covering a wider range of issues than any of the other existing or proposed instruments. Work on a draft code was started in 1977 in the Commission on Transnational Corporations (UNTNC), a subsidiary of the Economic and Social Council, but has not yet been completed. The United States has actively participated in negotiations to ensure that the code is voluntary; does not discriminate between foreign-owned and domestic firms; provides equitable treatment for multinational corporations under international law; and applies to all enterprises regardless of whether their ownership is public, private, or mixed. In the US view, guidelines that affirm standards of good practice for both enterprises and governments can contribute to improved relations between firms and governments and may limit the tendency for unilateral government intervention in investment matters.

### 3.5 BASIC HUMAN CONDITIONS

Any generalization about the condition of "typical people" in developing countries may be contradicted by some countries, regions, or population groups. The human condition of people in developing countries is characterized both by slow but steady progress in most statistical indicators of the "average" condition and by continued growth of the absolute numbers of people living in appalling conditions and with little prospect of improvement. The statistical averages mask great disparities in the distribution of income, opportunities, and services between urban and rural areas, between men and women, and between the culturally or politically advantaged and those left behind.

For example, most basic quality-of-life indicators (life expectancy, infant and child mortality, school enrollment, and adult literacy) are improving. At the same time, hundreds of millions of people lack potable water, minimum shelter and food, access to education, and other basic human needs. Endemic disease and parasitic conditions are the norm. Although poverty is the most basic constraint, continuing high fertility rates, environmental degradation, and slow progress in improving basic human rights also impede efforts to address these basic needs.

#### 3.5.1 The World Situation for Population

Population growth is more than just numbers and national statistics. Perhaps the most poignant consequence of rapid population growth is its effect on the health of mothers and children. Especially in poor countries, the health and nutritional status of women and children is linked to family size. Maternal and infant mortality rises with the number of births and with births that are too closely spaced. Numerous and closely spaced births lead to even greater malnutrition of mothers and infants. In countries as different as Turkey, Peru, and Nepal, a child born less than 2 years after its sibling is twice as likely to die before it reaches the age of 5 than if there were an interval of at least 4 years between the births. Complications of pregnancy are more frequent among women who are very young or near the end of their reproductive years. In societies with widespread malnutrition and inadequate health conditions, these problems are reinforced.

There are now 4.8 billion people in the world, and 6 billion projected by the year 2000. Most of this growth will take place in developing countries. Even assuming gradual declines in birth rates, the unusually high proportion of youth means that population growth in many of these countries will continue to be rapid for the next several decades. Without concomitant economic growth, such rapid population growth places tremendous pressures

on governments and compounds the already serious difficulties of accommodating social and economic demands. The World Fertility Survey found that in most developing countries more than half the women of reproductive age want no more children, but two-thirds are not using any modern means to prevent it. The consensus at the 1984 International Conference on Population was that rapid population growth is a problem in the majority of developing countries and that continued assistance for voluntary family planning programs is needed. (Refer to Chapter 4, Section 4.2.2, for further detail concerning population issues.)

### 3.5.2 The World Situation for Health

The majority of deaths among low-income populations result from factors such as parasitic and infectious diseases. Although many of these can be addressed with relatively simple preventive interventions and therapies, a large proportion of the developing world's population lacks the necessary basic public health care services. Extension of these services is inhibited by competition for scarce public resources and difficulties in managing complex national programs. It is also inhibited by inadequate research and program experimentation on the diseases and disease conditions of these countries. The prevailing emphasis in world-wide medical research has been on the diseases common to the industrialized countries--heart disease, hypertension, and various forms of cancer.

Each year an estimated 400 million persons are affected by malaria, which causes suppression of the immune system, anemia, miscarriage in pregnant women, weakness and susceptibility to repeated incidences of disease among adults, and possibly as many as three million deaths annually among infants and children. Malaria is now out of control in certain regions as a result of the increasing resistance of parasitic strains to existing pesticides and drugs.

Approximately 200 million people suffer from schistosomiasis, another 250 million from filariasis, and an estimated 40 million from the filarial disease onchocerciasis (one of the leading causes of blindness). The other leading cause of blindness, severe vitamin A deficiency, may affect 4 million children each year in Asia alone. This and other vitamin deficiencies are often the result of episodes of diarrheal disease.

Extremely high levels (100-200 per 1,000) of infant mortality continue to occur in several countries of Asia and Africa. Diarrheal disease and neonatal tetanus are the leading causes, with diarrheal disease and associated dehydration resulting in 5 to 10 million infant and child deaths per year. Among older children, acute respiratory infections are the primary cause of

death. Although environmental conditions and nutritional factors affect the outcome of each case, infant and child mortality could be reduced substantially through relatively simple and cost-effective interventions such as rehydration therapies and vaccines for neonatal tetanus. Prematurity, low birth weight, and complications of labor and delivery also contribute to infant mortality rates and reflect the general inadequacy of prenatal screening, modern childbirth services, and access to child-spacing information. Due in part to the high infant and child mortality rates, life expectancy in 32 of the least developed countries is 51 years, compared with about 75 years in the industrialized countries (1982 figures). (Refer to Chapter 4, Section 4.2.4, for a more detailed discussion of health issues.)

### 3.5.3 The World Situation for Education and Training

While many factors contribute to the human condition, perhaps the most powerful is the choices individuals make for themselves and their families. Basic education sufficient to make informed choices and to acquire additional information and productive skills as needed is key to family decision-making, to efficient functioning of market economies, and to full participation in modern social and economic institutions.

The education level of the general population explains much of the differences between communities and countries in income levels, infant mortality and fertility rates, technology adaptation, and other factors affecting individual and household welfare. In the poorest countries and among communities with the least access to basic services, primary schooling is a high-priority basic human need and one of the few means available for improving people's ability to help solve their own problems.

Primary school enrollment continues to expand, and most developing countries now enroll 70-80 percent of the 6-11 year-old age group. Despite substantial progress, most developing countries continue to have very inadequate basic education systems. Approximately 600 million adults cannot read or do simple calculations. Educational quality is poor, and schools are typically overcrowded and lacking essential equipment, materials, and trained teachers.

There are major disparities between and within countries, ranging from near-universal enrollment in the wealthier countries and the urban areas of most countries to 20-30 percent or less in poorer and more rural areas. Although female enrollment in primary and secondary schools is increasing, it continues to be only 80-90 percent of the level of male enrollment in most countries; for adult women (who lacked significant schooling opportunity in

the previous generation), illiteracy rates range up to 90-95 percent, particularly for older women and those in rural areas. There is strong consensus that raising female education levels is an essential part of any strategy for meeting basic human needs and improving the human condition. (Refer to Chapter 4, Section 4.2.1, for further detail concerning education and training development issues.)

#### 3.5.4 The World Situation for Food Consumption and Nutrition

According to US Department of Agriculture estimates, world food supplies in 1984 declined from record levels of a year earlier, but remained relatively large. Nonetheless, production shortfalls continue to cause a serious food supply situation in several countries, especially in Africa. The overall projection for world food supplies is mostly favorable, with crop production expected to increase for the 1984/85 period, but sharply lower carrying stocks will result, at best, in small gains in total supply. Even if prices of some items decline somewhat in 1984/85, some low-income countries may not be able to increase appreciably their commercial imports of basic food items, given persistently high debt-service obligations, historically low ratios of reserves to imports, and the possibility of continuing strength in the dollar.

Although global per capita food production has increased slightly over the last 20 years, that growth has not been sufficient to reduce malnutrition significantly. In Africa, where growth in food production has failed to keep pace with population increases, levels of malnutrition remain high, and that continent's susceptibility to drought and exposure to adverse food price fluctuations on the world market have increased.

Typically in developing countries, one-quarter to one-half of the children under 5 years of age are shorter than 90 percent of children their age as measured by international standards of height for their age--in the United States only 2.5 percent of children are that short. There is no evidence that the situation is improving. In those parts of Africa currently suffering from drought, malnutrition and child mortality are certainly elevated above the typical levels. Malnourished people tend to be the weakest members of the family household--the very young, the elderly, and women of all ages. Similarly, malnourished households are the weakest groups in society--landless or near-landless families, migrant households, slum dwellers in cities, woman-headed households--and frequently live in communities and homes that are inaccessible seasonally or year-round.

The United States has generally responded to hunger with immediate and continuing food aid. The Food for Peace (PL 480) program makes available surplus production from American farms

for food aid directed primarily to low-income developing countries that suffer from food shortages. However, food aid alone does not permanently remove the causes of hunger and malnutrition. The prime cause of hunger and malnutrition is the lack of access to productive resources--education, health services, land, markets, credit, technology--which reinforces the poverty and malnutrition cycle for affected families. The chapters which follow describe how development assistance programs of the United States are addressing these constraints. (Refer to Chapter 4, Section 4.1, for a more detailed discussion of food consumption, nutrition, and agriculture.)

### 3.5.5 The World Situation for Employment and Income

Although arriving at reliable and representative measures of labor underutilization in developing countries with across-country validity has proved to be elusive, most specialists agree on the existence of very serious underemployment and related poverty conditions in the developing world.

During the last 20 years or so, the relative importance of agriculture as a source of employment has declined. Nonetheless, the absolute number of workers employed in agriculture has increased in the majority of countries. If one bears in mind that productivity and labor income in agriculture tend to be lower than in other sectors, the fall of the proportion of workers in agriculture suggests that rising proportions of workers have been able to move to sectors in which their incomes and productivity are greater. On the other hand, the following factors underline the need for improvement in the employment conditions in agriculture: (1) the agricultural sector still is the source of livelihood for the majority of workers in low-income and lower-middle-income developing countries, (2) incomes and productivity in agriculture in general are very low, and (3) the absolute number of agricultural workers has risen.

Employment in the secondary and tertiary sectors has risen three to four times faster than that in the primary (largely agricultural) sector of most developing countries. (The secondary sector includes manufacturing, construction, and utilities; the tertiary sector includes all other services.) Moreover, overall employment in the secondary sector has risen at approximately the same rate as employment in the tertiary sector. These trends, of course, are the counterpart to the fall in the employment ratios in agriculture mentioned above and reflect the tendency of workers to move where opportunities for higher labor incomes develop.

In part as a reflection of the shifts in the sectoral composition of the labor force, the fastest growing occupational

groups have been the white-collar workers in professional, managerial, and clerical occupations, and craftsmen and laborers in mining, manufacturing, construction, and transportation.

Although open unemployment rates are a very imperfect indicator of the underutilization of labor in developing countries, changes in those rates are probably indicative of the direction of change in labor market conditions. Available figures suggest the absence of a definite trend in unemployment rates over the last two decades or so. However, in general, the rates tended to rise during the 1981-1982 years as a consequence of the world recession of the early 1980s. Moreover, because of the likelihood of faster labor force growth in some countries and prospects of slow economic growth, labor market conditions in parts of the developing world could deteriorate further. Naturally, these prospects convey an even greater sense of urgency to the need to ameliorate employment conditions in developing countries.

The incidence of unemployment is greater among young workers. This is important because long-term unemployment tends to make a person's labor market skills obsolete and, in the case of youths, hinders the development of the skills and attitudes required in the world of work. From a policy perspective, one implication of this situation is the need to focus on those factors that tend to slow down the incorporation of young workers into productive employment. (Refer to Chapter 4, Section 4.2.3, for a more detailed discussion of employment issues.)

### 3.5.6 The World Situation for Human Rights

Many countries are demonstrating a new sensitivity to and awareness of the need to protect the rights of individuals, together with a readiness to discuss constructive approaches that will foster the development of human rights. Data are available in some areas, such as the number of political killings or arbitrary arrests, that provide quantifiable evidence of the emergence of encouraging trends in the protection of human rights. Improvements also are becoming evident in the status accorded to civil rights in many developing countries. Although still far from being universally accepted, the right of workers to organize and bargain collectively is being recognized in many developing countries. Major strides are being made in almost every country in improving the status of women in society, particularly in terms of their participation in economic and political spheres.

There appears to be growing acceptance, even among countries where human rights are not fully respected, of the validity of an international human rights agenda. Many countries that are strong supporters of human rights have, like the United States, established offices specifically responsible for international

human rights policy. In 1985 the 35 nations, East and West, that signed the Helsinki Final Act of the Conference on Security and Cooperation in Europe will gather in Ottawa for a Human Rights Experts Meeting in May and again in Budapest in October for a Cultural Forum that will also be devoted significantly to discussing human rights.

The 40th session of the UN Human Rights Commission (UNHRC) met in 1984 to deal with human rights issues in a number of countries. The agenda included consideration of human rights violations in Poland; adoption of resolutions dealing with Grenada, Nicaragua, Afghanistan, and Cambodia; and appointment of a rapporteur to study abuses in Iran and issues involving Israeli-occupied territories, Chile, El Salvador, Bolivia, Guatemala, and South Africa. The General Assembly's Third Committee (Social and Humanitarian Affairs) voted on issues regarding, among others, racial discrimination; human rights in El Salvador, Chile, and Guatemala; Middle East issues; and self-determination.

On December 10, 1984 (Human Rights Day) the United Nations General Assembly (UNGA) decided by consensus to adopt and open for signature a Convention Against Torture and Other Cruel and Inhuman or Degrading Treatment or Punishment. On the same day UNGA celebrated the 36th anniversary of the Universal Declaration of Human Rights, and President Reagan, in signing his annual Human Rights Day Proclamation, took the opportunity to reaffirm American commitment to the international standard set by the Universal Declaration. (See Chapter 4, Section 4.4, for further discussion of human rights issues).

## CHAPTER FOUR

### DEVELOPMENT: PROGRESS AND PROBLEMS

#### 4.1 FOOD AND AGRICULTURE

Hunger and malnutrition are major development problems, especially in the low-income, food-deficit countries of the world. The basic causes of continuing hunger and malnutrition are low agricultural productivity and the inability of the poor and malnourished people in developing countries to purchase or otherwise acquire and consume the food they need.

The World Bank estimates that the number of malnourished people in all developing countries could double, or even triple, from the current 500 million to 1.3 billion by the year 2000. While per capita food consumption is projected to increase by 21 percent in the industrial countries during the period 1970 to 2000, the developing countries are expected to raise their per capita food consumption by only 9 percent during this period.

Real progress has been made in conquering hunger and malnutrition in a number of Asian and Latin American countries. However, most countries in Africa and the Caribbean are not able to produce and distribute the food they need or to afford their growing food import requirements. Per capita food production in these food-deficit countries has declined over the past decade. To reverse this trend, and to meet the growing demand for food generated both by population growth and rising incomes, food production must increase by 3 to 4 percent annually. Such high food production growth rates, however, are rarely achieved and seldom sustained, even by countries with far more resources than these low-income, food-deficit countries. Therefore, these countries must also significantly raise their level of exports to generate the foreign exchange necessary to import food.

Prospects for improved diets in other developing countries likewise are not encouraging, because the distribution of income and availability of food are skewed in favor of both higher income groups and urban consumers.

##### 4.1.1 Future Prospects for Food and Agriculture

Future food availabilities will be influenced significantly by the rate and distribution of income and population growth among developing countries. About 90 percent of the 1.2 billion increase in world population projected between the present and the year 2000 will occur in developing countries.

Much of the population increase will occur in the least developed countries, countries which even now are unable to assure adequate food supplies for their current populations. These countries will have to compete for available world grain supplies with middle-income and advanced developing countries. It is likely that the most advanced developing countries will be more than able to afford the food imports they require to satisfy their growing demand for direct human consumption and livestock production. However, low-income consumers in these countries will still lack enough income to purchase an adequate diet. Unless the production of major food crops in the least developed countries improves significantly and unless the purchasing power of the poorer segments in all developing countries is increased through broadly based growth, the recurring problems of hunger and malnutrition in the world will not be conquered.

Efforts to raise production by expanding the agricultural land base will be restrained by the fact that most good arable land, especially in Asia, is already being cultivated. Land available for cultivation is expected to increase by only 4 percent by the year 2000. Thus, increased agricultural production must come largely from new, higher yielding production technologies that will permit 1 hectare of arable land, which supported 2.6 people in the 1970s, to support 4 persons by the year 2000.

To raise yields, agricultural production, and rural incomes on a sustained basis is a formidable, but in no sense hopeless, task. The experience of the last 30 years has demonstrated that with carefully planned and administered programs such increases are possible. When economic assistance is tailored and coordinated with the self-help efforts of a government and its people, dynamic and productive agricultural systems have been established. This experience also has demonstrated that conquering hunger and malnutrition usually requires sustained improvements in the purchasing power of the poor majority. Expanded employment of nutritionally at-risk families in agriculture and its supporting rural enterprises, as well as their employment in labor-intensive industry, has enabled them to raise their disposable incomes to purchase the food they need. This increase in the purchasing power by the poor majority is also the most effective way to create agricultural incentives for producers to adopt new, higher yielding technologies.

#### 4.1.2 US Policy Objectives for Food and Agriculture

The two major objectives of the US program in food and agriculture are the following:

1. Increased food availability through (a) increased agricultural production, with special attention to food production and an emphasis on increasing and sustaining the productivity, incomes, and market participation of small farmers; and (b) greater economic efficiency in the marketing and distribution of agricultural and food production, both exports and imports.
2. Improved food consumption through (a) expanded productive employment of those who now lack the purchasing power to obtain adequate food; (b) increased awareness and incorporation of sound nutritional principles in the design and implementation of production, marketing, health, and education policies and programs; and (c) effective direct distribution of food from domestic or external sources to those facing severe malnutrition and temporary food shortages.

The primary means for achieving these objectives are activities that meet the following criteria:

- Improve country policies to remove constraints to food and agricultural production, marketing, and consumption
- Develop human resources and institutional capabilities, especially to generate, adapt, and apply improved science and technology for food and agricultural development, and conduct research on developing country food and agriculture problems
- Expand the role of the private sector in developing countries in agricultural and rural development, as well as the complementary role of the US private sector in assisting this expansion
- Employ all available assistance instruments in an integrated manner, including the provision of PL 480 food aid in ways that contribute to the other three elements while meeting food security and nutritional needs

#### 4.1.3 Progress in Meeting Objectives

The Small Farmer Production pilot project was initiated in Egypt in FY 1979 to address key constraints in acquiring credit and agricultural inputs. The \$49 million project has helped improve the operations of 27 village banks and has provided a package of improved agricultural inputs (credit, extension, fertilizer, and pesticides). Given the availability of agricultural inputs and credit, the small farmer was expected to perceive a greater income potential and therefore be willing to pay higher interest rates. Under the project, interest rates were increased

to 10 percent, a rate closer to the market rate and higher than the 6 percent for government credit. By December 1983, some 16,000 loans at the 10-percent rate had been made under the project to about 10 percent of the farmers in the pilot project areas. Loans have supported a wide range of farm investments, including improved breeds of water buffalo and cows, as well as cultivating and harvesting equipment. The average loan size has been about \$900, and loan repayment has exceeded 98 percent. Recently, interest rates were increased from 10 percent to 14 percent, and a substantial portion of the bank's ordinary portfolio (government loans at 6-percent interest) will be loaned at the new 14-percent rate. The government has recently indicated its intention to expand the project twofold under its own funding.

In Honduras, most farms are not titled because land has never been officially transferred from public ownership to the current occupants. As a result, these people are "squatters," even after generations of residence. The Land Titling project "sweeps" critical areas of the country, municipality by municipality, ascertaining from neighbor witnesses that the occupant has in fact farmed the land for at least the last 3 years. A valid title may then be purchased by the occupant from the government at a nominal cost. In Guatemala, the United States is developing a project to establish a commercial land market. This will facilitate subdivision of large estates as well as aggregation of small plots. Under a small Operational Program Grant (OPG) to the Penny Foundation, various aspects of the larger program are being tested.

The Central Tunisia Rural Development (Rangeland Development) project was initiated in FY 1981 with a planned life-of-project cost of \$6.2 million, of which the United States provided \$2.6 million over 5 years. An evaluation carried out in 1984 showed that at the end of the second year, 900 farmers were participating in a program which had reseeded 2,530 hectares, vaccinated 30,000 animals, and provided 150 breeding rams. Project data indicate a 30-percent rate of return on investment, not including benefits in erosion control, elimination of downstream flooding, and appreciated property values. On demonstration plots, the project increased forage quantity and quality tenfold on average.

The Kenya Rural Private Enterprise project provides a grant of \$7 million and a loan of \$24 million to accelerate the establishment of sound rural private businesses that have strong forward or backward linkages to smallholder agriculture. Initiated in FY 1983, this 5-year project provides credit and technical assistance to commercial banks to expand lending and business advisory services in rural areas. The banks make loans to small- and medium-size enterprises, and they periodically follow up on business operations and credit performance. Typical businesses

include seed and fertilizer suppliers and wood and leather processors. The project also provides grants to private voluntary organizations (PVOs) that provide management advice and extend loans to very small-scale businesses currently unable to attract banking services.

## 4.2 HUMAN RESOURCES DEVELOPMENT

### 4.2.1 Education and Training

#### US Policy Objectives for Education and Training

In FY 1983 and FY 1984, the Agency for International Development (AID) issued new policy guidance for Basic Education and Technical Training, Participant Training, and Development Communications and reflected this in sectoral and regional programming strategy guidance. The Education and Human Resources (EHR) program objectives are to improve the following:

- Basic schooling opportunities for the 6- to 14-year-old age group, with particular attention to girls and to children in rural areas. A priority task is strengthening the analytic, assessment, and planning capacities needed to improve education system management and use education resources efficiently.
- Skills training for adolescents and adults, with particular attention to training for self-employment and for employment in small- and medium-size enterprises. AID emphasizes the need to involve employers fully in establishing and maintaining skills training systems, ranging from vocational and technical training institutions to in-service, on-the-job, and extension training programs.
- Scientific, technical, administrative, and managerial training, with particular attention to staff development for training and research institutions. Training elements of AID programs in health, agriculture, population, and other sectors are about 20 percent of total activities.

Most EHR assistance is provided through bilateral programs of technical assistance, staff development, and institutional strengthening. Centrally funded EHR programs support research and development in education, training, administrative, and management systems and provide administrative support for participant training and labor-development programs. Regional programs provide technical support for the bilateral programs and administer regional training programs. In addition, the EHR offices (bilateral, regional, central) provide technical and administrative support for education and training activities under other funding accounts.

## The Need for Education and Training

Human resources development includes raising general education levels as well as training at all levels to meet labor market requirements and institutional needs for management, technical, and research personnel. However, until basic education systems such as primary schooling are established, the specialized training programs rest on a weak foundation, and only a fraction of a nation's human resources potential can be realized.

Basic education sufficient to make informed choices is key to noncoercive approaches to fertility and other personal decisions, to efficient functioning of market economies, and to full participation in modern social and economic institutions.

- In the wage economy, education and skills training increase and diversify people's options for remunerative employment. Employers benefit from improved efficiency and productivity and a wider range of investment and technology choices. Society benefits from economic growth, increased employment, and better distribution of opportunity.
- For the self-employed, in agriculture and in other fields, basic education and technical skills enable individuals to use available resources more productively and to respond more quickly to opportunities. Information is obtained more easily from extension systems; new technologies and marketing practices are adopted more readily; risks are calculated more accurately; and inputs are used more efficiently.
- For individuals and families, health, sanitation, and nutrition practices improve as education levels rise. Infant mortality declines and birth rates tend to fall. Household incomes improve as more members develop economic skills, and family welfare improves as education levels rise, particularly for girls and women.

## The World Situation for Education and Training

Primary school enrollment in developing countries continues to expand, and most countries now enroll 70-80 percent of the 6- to 11-year-old age group. Although this represents substantial progress, most developing countries continue to have very inadequate basic education systems. There are major disparities between and within countries, ranging from near-universal enrollment in the wealthier countries and the urban areas of most countries to 20-30 percent or less in poorer and more rural areas. Among the problems confronting developing countries in the area of basic education are the following:

- Approximately 600 million adults cannot read or do simple calculations.
- Educational opportunities are poorly distributed, with children in the rural areas, the urban poor, and females having the fewest opportunities to learn.
- Educational quality is poor, with schools typically overcrowded; in poor repair; and lacking essential equipment, materials, and trained teachers.
- Primary school grade repetition and dropout rates are high, and only a small fraction of those who complete primary school continue to secondary school or vocational training.
- Most countries must make difficult budget choices between the recurrent costs of maintaining the existing education system and the pressing needs for continued expansion and qualitative improvement.
- Administrative, analytic, and logistic support systems are weak, making it difficult to use available resources efficiently and to implement needed reforms.

Although all countries continue to have specific needs for additional technical and professional manpower, the general shortages typical of the last two decades have eased considerably. The most serious trained manpower problems remain in the poorest countries, such as those of Sub-Saharan Africa, which have yet to develop either adequate technical training capacity or broad-based general education systems.

A general problem is that specialized and advanced training programs are very expensive, raising public policy issues of the most appropriate allocation of available resources between specialized training and the general education systems. Further, while social demand for training exceeds training capacity in most countries, there is increasing oversupply relative to the rate of economic expansion and job creation. In short, countries face simultaneous problems of shortages of skilled workers, skilled worker unemployment or underemployment, and strong social and economic demand for additional training.

Developing countries need to diversify technical training options, involve employers more fully, and consider alternative approaches for financing technical training and university study. A priority is training for self-employment and small-scale enterprises, the sectors likely to provide the needed growth in employment.

### Progress Toward Meeting Education and Training Needs

AID has had an impact both in countries with major education assistance programs, such as Brazil, Colombia, Jordan, Korea, and Nigeria in the 1960s and 1970s, and in poorer countries, such as Nepal, Honduras, Lesotho, and Yemen, with continuing education assistance needs.

AID has contributed most effectively to education expansion and reform where it has been able (1) to strengthen key institutional capacities such as research and analysis, administration, teacher training, and instructional materials production; and (2) to support systemic reform over an extended period. Assistance focused more narrowly or for shorter periods has generally been less effective or enduring. For this reason, AID emphasizes systematic analysis and assessment of education and training capacities and long-term program strategies aimed at systemic reform and strengthening of key institutions and institutional capacities.

A second general lesson is that training for key managers, technicians, and analysts is essential for institutionalizing competence and ensuring a lasting assistance impact. External and local training is central to AID's strategies for strengthening institutions in all sectors, including education and training institutions, and will continue to be emphasized.

### Education and Training Priorities for the Near Term

In FY 1985, AID appropriations for EHR development activities are \$188.8 million, increased from \$131.6 million in FY 1984. The program includes new initiatives to improve the efficiency and accelerate expansion of primary school systems in Africa and Central America. Participant training will expand in all regions. Additionally, about \$6 million for EHR programs is provided under the Sahel program and approximately \$50 million for countries receiving funds under the Economic Support Fund.

AID supports training for administrators, managers, and scientific and professional personnel both as a major part of its EHR program and as project-related training components of projects in other sectors. Such training is estimated at 50 percent of the EHR program and 20 percent of other sector programs. Participant training in US institutions is projected to reach 15,000 individuals annually in FY 1986, representing an annual investment of \$150-\$200 million. Technical training is also included in most bilateral programs, mainly as project-related staff training. Skills training for self-employment, agriculture, and small businesses is increasing.

Basic education for children and for adults is attaining a higher priority. Programs supporting school system improvement and basic adult education account for about 30 percent of the bilateral EHR effort, or \$50-\$60 million annually, with an additional \$20-\$30 million under Economic Support Fund programs. The major emphasis is on managing and using scarce educational resources more efficiently. AID is increasing its attention to local school administration and financing systems, including private schools, and to the use of radio and other educational media to extend education cost-effectively in rural areas.

Approximately 30 percent of AID education funds support activities in Africa, where education and training systems are inadequate at all levels. About 48 percent of funds support programs in Latin America and the Caribbean (with about two-thirds going to Central America). Approximately 10 percent of funds support activities in Asia, and 6 percent support programs in the Near East.

#### International Assistance for Education Programs

Total international assistance for education and training is estimated at \$4.0-\$4.5 billion, growing at 10 percent annually. This amount compares to \$60-\$70 billion spent by developing countries on education and training. Almost 80 percent of total external assistance to education programs comes from two sources: the Organization for Economic Cooperation and Development (OECD) countries (of which France, the United States and the European Economic Community [EEC] are the largest donors); and the World Bank (International Bank for Reconstruction and Development/International Development Association--IBRD/IDA). The World Bank's education lending has grown steadily from an annual average of \$150 million in the late 1960s to over \$500 million today. Of total international assistance to education programs, the US bilateral programs (including human resource activities and project-related training in noneducation sectors) represent about 7 percent.

#### 4.2.2 Population

##### US Policy Objectives for Population

The objective of the AID population assistance program is twofold: (1) to enhance the freedom of individuals in developing countries to determine voluntarily the number and spacing of their children and (2) to incorporate population assistance in a comprehensive program that focuses on the root cause of development.

The recent US policy statement on population assistance prepared for the International Conference on Population in August 1984 has three basic thrusts:

1. A recognition that population pressures on developing countries can be alleviated by adopting sound economic policies to produce growth, as well as by policies specific to the population sector.
2. Continued support for expanded access to voluntary family planning services
3. Additional policy guidance to ensure that US Government funds are dissociated from abortion-related activities and coercion in other countries

The policy statement makes clear that support for family planning programs is based on respect for human life, enhancement of human dignity, and strengthening of the family. Attempts to use abortion, involuntary sterilization, or other coercive measures in family planning will be rejected.

The US policy and program give major emphasis to (1) voluntary family planning service programs that provide a wide range of choices in family planning methods, including natural family planning; (2) greater involvement of the private sector in service delivery, including both nonprofit and commercial distribution systems; and (3) biomedical research into safer and better methods of fertility regulation and operations research into more effective service delivery and program management. AID's general development program emphasizes activities and policies that will bring about self-sustaining growth in emerging economies.

#### The World Population Situation

The world's rapid population growth is a recent phenomenon. Only several decades ago, the population of developing countries was relatively stable, the result of a balance between high fertility and high mortality. The great advances in health, especially the dramatic reduction in infant mortality, have upset this balance. While we celebrate this achievement as a great reaffirmation of life, it is one that creates new challenges for the world. There are now 4.8 billion people in the world, and world population could reach 6 billion by the year 2000. Most of this growth will take place in developing countries. Conservative projections indicate that, in the 60 years from 1950 to 2010, many developing countries will experience four-, five-, or even six-fold increases in the size of their populations. Even under the assumption of gradual declines in birth rates, the unusually high proportion of youth in the Third World means that the annual population growth in many of these countries will continue to increase for the next several decades.

Without concomitant economic growth, such rapid population growth places tremendous pressures on governments. It becomes a problem when it compounds the already serious difficulties faced by both public and private sectors in accommodating changing social and economic demands. In such instances, resources are diverted from needed investment, and the costs and difficulties of economic development are increased.

Rapid population growth in developing countries also exacts a heavy toll in human lives, especially of women and children whose health, nutrition status, and longevity are related to family size and the spacing of births. The rates of maternal and infant mortality rise as the number of births increases and the spacing between births decreases. These consequences are intensified in societies with widespread malnutrition and poor health services.

Thus, population goals and policies must be considered not as ends in themselves, but in the context of social and economic strategies designed to enhance the human condition in a manner consistent with basic values. Slowing population growth is not a panacea for the problems of social and economic development, and it is not offered as a substitute for sound and comprehensive development policies. Population assistance is offered as an important component of a comprehensive program that focuses on the root causes of development problems. The consensus at the 1984 International Conference on Population was that rapid population growth was a problem in the majority of developing countries and that there was a need for continued assistance for voluntary family planning programs.

There are strong indications of a widespread desire to space and limit pregnancies. The World Fertility Survey, conducted in 42 developing countries by the International Statistical Institute, found that in most developing countries more than half of the women of reproductive age want no more children, but typically two-thirds are not using any modern means to prevent pregnancy. Tragically, the result may be many unwanted pregnancies that lead to termination by abortion. Moreover, a failure to find ways to assist couples in voluntarily limiting the size of their families increases the pressures by some for more Draconian measures which interfere with individual rights.

#### US Population Assistance--Progress Toward Meeting US Objectives

Over the past 20 years, the United States has played a leading role in focusing attention on population issues, in urging international cooperation, and in designing and implementing population assistance strategies based on voluntary family planning.

In the last several years, demand for population assistance has grown dramatically for several reasons. First, it is a simple demographic fact that each year there are increasing numbers of couples reaching their childbearing years and requiring family planning services. Second, governments in developing countries have become increasingly concerned about the linkages between rapid population growth and overall economic development. As a result, some 60 developing countries, constituting 75 percent of the total population of developing countries, have adopted policies on population. Third, as the links between numerous closely spaced births and infant and maternal mortality have become better understood, individuals in developing countries themselves have begun to demand family planning services in order to space births and to limit family size.

The largest proportion of US population assistance goes into providing family planning services, including training for physicians, paramedics, and field workers; commodities; and technical assistance in the design and improvement of distribution systems. In 1984 this amounted to about \$185 million, or 77 percent of the total population assistance account.

Working with governments and nongovernmental organizations over the past 17 years, AID has developed and refined effective ways of strengthening institutions through which family planning services can be provided. In an attempt to increase the availability of these services, AID is placing greater emphasis on the involvement of the nongovernmental sector in family planning. In FY 1984 and FY 1985, AID will spend about 48 percent of its total population assistance budget in support of nongovernmental organizations. Through such organizations, AID supports community-based distribution of family planning services, involving paraprofessional and volunteer personnel, and social marketing or commercial retail sales programs, under which family planning supplies are delivered through the commercial sector. AID support for subsidized retail marketing of contraceptives has received increased emphasis and support, because this type of distribution has risen from about \$7 million in FY 1981 to over \$25 million in FY 1985.

AID recognizes that effective family planning programs must offer assistance that is consistent with the cultural environment and the religious and philosophical convictions of the host population. Therefore, AID has encouraged inclusion of natural family planning in its programs, where this method is culturally appropriate to the population. AID support to natural family planning has grown from \$400,000 in FY 1980 to a targeted \$7 million in FY 1985.

Accompanying the provision of services is the dissemination of information and education on family planning and population, both for individual users and also for government policymakers.

In 1984, AID spent about \$15 million on information and education for users of family planning and for policymakers in developing countries. The United States has given increased support for research on the safety and effectiveness of contraceptives and the development of promising new contraceptive methods. In 1984, AID contributed about \$11 million for this purpose.

This Administration recognizes that both economic and social conditions and access to a broad range of voluntary planning services are important components of fertility declines and sustained economic growth. AID supports a broad range of activities in various sectors, including agriculture, private enterprise, science and technology, health, population, and education. Through its programs and policy dialogues with host governments, AID attempts to ensure that family planning programs and economic development policies and programs in these other sectors are mutually reinforcing. During this Administration, the United States has used these complementary approaches to resolving the problems of the imbalance between population growth and economic growth, following the Congressional mandate outlined in section 104(d) of the Foreign Assistance Act.

#### International Assistance for Population Programs

Worldwide population expenditures total about \$1 billion annually. Developing countries themselves provide well over half of this amount. The United States is the major donor of international population assistance (providing about one-half of the total donor assistance) along with Japan, Norway, Sweden, West Germany, Canada, the Netherlands, and the United Kingdom. In FY 1984 the US population assistance budget was more than \$240 million. On the multilateral level, the UN Fund for Population Activities (UNFPA) and the World Bank are the principal donors. In FY 1984 pledges to UNFPA amounted to \$138 million, of which the United States pledged \$38 million, or 27 percent of the total UNFPA contributions.

#### Population Prospects for the Near Term

AID will continue to accord priority in population assistance to the expansion of voluntary family planning services and related activities. This includes emphasis on expansion of the role of the private sector in the delivery of services either through private voluntary organizations or through the use of commercial channels for the distribution of family planning supplies. In an effort to extend the choice of methods available and enhance the programs it supports, AID is increasing its support for natural family planning methods and for biomedical research on promising new family planning methods and the improvement of existing methods. The policy environment within

which family planning programs operate is important to their success. AID will continue to provide technical assistance and financial support for policy analysis and policy development in developing countries so that the provision of family planning services and other development policies and programs are mutually reinforcing. The US program in FY 1985 will build on past experience, but will emphasize increased utilization of the private sector in service delivery, expanded method choice, policy development, and strengthening of local institutions.

#### 4.2.3 Employment

##### US Policy Objectives for Employment

The generation of productive employment opportunities at higher real wages in developing countries is a top priority objective for AID. The attainment of this objective will help the developing country populations satisfy their basic needs, contribute to the unleashing of the creative forces of individual work, and assist in expanding the potential for economic growth and well-being.

##### Policy Emphases and Projects

AID's approach to employment and unemployment conditions in developing countries stands on the fundamental proposition that the goal of generating productive employment is best served by the promotion of economic growth in a competitive setting. AID's efforts rest on the following principles and rationale:

1. The need to stress those strategies and policies that stimulate investment. AID favors development paths that seek to exploit actual or potential comparative advantages in as many productive sectors as efficiently possible. Such broad-based development enables a country to efficiently take advantage of intersector linkages and provides a measure of built-in protection against fluctuations in the international demand for some of its commodities or services. Consonant with its emphasis on encouraging developing countries to benefit from their comparative advantages, AID policies encourage the development of the export potential of the countries it assists.

To help developing countries realize their export potential, AID has carried out projects that promote export-oriented industrial activities and nontraditional agroindustrial products for export markets. For example, in Costa Rica AID has supported the development of the capacity to stimulate the production and processing of nontraditional agricultural export products by small-scale farmers and rural entrepreneurs.

2. Prices should reflect as closely as possible the economic scarcity of goods, services, and production factors. In addition to enhancing product growth, the application of this principle by a developing country tends to maximize the productive employment derived from a given rate of output growth. Unfortunately, many policies and policy orientations followed by developing countries during recent decades have tended to raise excessively the cost of labor above its true cost, while lowering the price of capital below its scarcity value. AID opposes actions that tend to distort factor prices and encourages settings in which prices reflect economic scarcity. In this light, AID discourages policies that tend to result in relative factor prices biased against the use of labor. Thus, for example, it favors the deregulation of financial markets, increased competition in financial sectors, and free-market-determined interest rates. To help developing country governments identify important constraints resulting from price and related distortions, AID has assisted in carrying out special policy studies. In Panama, for example, such studies are focusing on areas such as public sector efficiency, industrial policy, trade liberalization and employment, the labor code, and agricultural policies.

3. Greater reliance on private sector initiatives within a competitive setting is important. AID emphasis on the private sector derives from its perception that the private sector should be the main agent for growth and employment, whereas the main role of government should be to help create the right conditions for development. In line with this emphasis, AID has generated throughout Africa, for example, new private sector initiatives such as the Rural Private Enterprise Project in Kenya and the Small Economic Activity Development Project in Upper Volta. Other examples are the centrally funded Market and Technology Access Project, which identifies, tests, and evaluates methods of promoting collaborative ventures between small- and medium-size US and developing country businesses, and the Indonesia Private Sector Development Exploratory Project, which provides consultant services for Indonesian entrepreneurs, funds special studies relating to constraints to the private sector, and assists in the development of a major industrial enclave in Northern Sumatra.

4. Efficient education and training activities relevant for the world of work are important for preventing shortages of strategic skills that constrain output and employment. Because the lack of access to adequate education and training services is a factor that adversely affects the employment potential of particular population groups, AID seeks equality of opportunity for all persons in developing countries. It thus emphasizes the importance of making those services accessible, especially to low-income population groups. In line with these concerns, AID emphasizes the importance of improving the efficiency and effectiveness of the formal and nonformal education and training systems. Various projects reflect these priorities. For exam-

ple, the Rural Information System Project in Liberia uses the radio to broadcast educational programs to the rural population, and the Lesotho Basic and Non-Formal Education System Project in Lesotho works on reorienting and improving basic education so that it provides skills relevant for rural-based employment and incomes.

#### Promotion of Appropriate Technology

The economic potential of a country is enhanced if technological change in the country results in efficient production techniques that make intensive use of the country's abundant productive resources. Because labor is the relatively abundant factor in most developing countries, the development of labor-intensive techniques would be the appropriate course for these countries. Accordingly, AID promotes efforts directed to raise or develop the capacity of developing countries to generate, adapt, or diffuse efficient labor-using techniques. An example of such efforts is the cooperative agreement with A.T. International (ATI) which facilitates the transfer of capital-saving, employment-generating technologies to small, private enterprises in developing countries. ATI was set up to respond quickly to situations in which limited amounts of resources are needed to carry out innovative activities with a high-payoff potential.

#### Small-Scale Industry

AID supports the establishment and expansion of competitive small enterprises because they generate a substantial amount of productive employment in many developing countries; tend to be labor intensive; in many industries, have a potential for competing effectively with larger firms; and provide important channels for entrepreneurial drives. This support is implemented through credit and training programs, the financing of research relating to small firm activities, and encouragement of the elimination of government practices that discriminate against small firms. In the Dominican Republic, for example, the Small Industry Development Project provides credit at market rates to small industries through private financial institutions and user-financed technical and management assistance to recipient firms.

#### Rural and Agricultural Development

Improving employment conditions in rural areas through rural development is an essential element in AID's strategy for ameliorating the overall employment situation in developing countries. Accordingly, diverse projects have been funded to help attain this goal. For example, the centrally funded Small Farmer Marketing Access Project provides assistance to developing

countries in identifying factors that prevent small farmers from marketing their produce for equitable prices. In Niger, the government is implementing new policies that are consistent with recommendations provided under the project. An example of a related but different type of project is the centrally funded Rural Savings for Capital Mobilization Project, which is developing better ways of providing rural financial services to improve productivity, income, and employment opportunities in rural areas.

#### 4.2.4 Health

##### US Policy Objectives for Health

The overall goal of the AID health strategy is to assist developing countries to (1) reduce mortality among infants and children under 5 years of age, and (2) reduce disease and disability among infants and children, women of reproductive age, and other members of the labor force. While it is recognized that health status is closely related to other variables in the socioeconomic development process, such as household income and maternal education, this strategy focuses directly on access to health services and supplies as a means of achieving gains in health status. Given the resource limitations of developing countries and donor agencies such as AID, emphasis is placed on the most cost-effective approach to improving societal health status, that is, community-based primary health care (PHC).

AID's experience with the implementation of broad-scale PHC services has led to the evolution of its objectives in the design of these programs. Problems observed in national programs--such as inadequate logistical support at the community level, limited training and acceptability of health workers, and difficulty monitoring progress in achieving PHC coverage--indicate that centralized programs may not be the best avenue of service delivery. Recent AID evaluations have shown that services planned and financed by communities, cooperative associations, and other organizations representing the recipients of health services stand a better chance for success in terms of both quality and continuity of care.

In addition to supporting innovative financing schemes, AID emphasizes the selection of a limited number of technologies with proven effectiveness in reducing morbidity and mortality from illnesses prevalent in the developing world, such as immunizations and oral rehydration therapy (ORT) for diarrheal disease. Informed selection of a basic list of supplies allows for bulk procurement, thus reinforcing prospects for indigenous private sector production and marketing firms to develop their role in the delivery of PHC services.

## The World Situation for Health

Competition for scarce public resources and difficulties in managing complex national programs have inhibited the extension of PHC services to a large proportion of the developing world's population. Furthermore, the prevailing emphasis in worldwide medical research has long been on the diseases common to the industrialized countries--heart disease, hypertension, and various forms of cancer--rather than the parasitic and infectious diseases that are a factor in the majority of deaths among low-income populations.

In recent years, epidemics of historic proportions have been reported in heavily populated tropical countries. Malaria, in particular, is now out of control in certain regions as a result of the development of parasitic strains that are resistant to existing pesticides and drugs. Each year an estimated 300 million persons are affected by malaria, which causes suppression of the immune system, weakness and susceptibility to repeated incidences of disease among adults, and possibly as many as 3 million deaths annually among infants and children.

Diarrheal disease, which leads to severe dehydration if not properly treated, is in itself a leading cause of death, resulting in 5 to 10 million infant and child deaths per year. Extremely high levels (100-200 per 1,000) of infant mortality continue to occur in several countries of Asia and Africa. Along with diarrheal disease, neonatal tetanus is the major cause of deaths among infants, even though it is vaccine preventable. Among older children, acute respiratory infections are the primary cause of death, although clearly environmental conditions and nutritional factors enter into the outcome of each case.

Prematurity, low birth weight, and complications of labor and delivery also contribute to infant mortality rates and reflect the absence of prenatal screening, modern childbirth services, and access to child-spacing information among a vast proportion of the populations of developing countries. Due in part to the high infant and child mortality rates, life expectancy in 32 of the least developed countries is 51 years, compared with about 75 years in the industrialized countries (1982 figures).

Approximately 200 million people suffer from the debilitating effects of schistosomiasis, and another 250 million from filariasis. An estimated 40 million persons are affected with the filarial disease onchocerciasis, one of the leading causes of blindness in the developing world. The other leading cause of blindness, severe vitamin A deficiency, may affect four million children each year in Asia alone. This and other vitamin deficiencies are often the result of episodes of diarrheal disease.

## Progress in Health Through US Bilateral Assistance

AID has taken a leading role in promoting selected technologies that have general applicability, demonstrated capacity, and high potential to reduce infant and child mortality and to prevent morbidity. Since 1980, AID has allocated steadily increasing resources to (1) systematic immunization efforts, particularly against diphtheria, whooping cough, tetanus, measles, poliomyelitis, and tuberculosis for children, and against neonatal tetanus for women of childbearing age; (2) the expanded use of oral rehydration therapy, a simple but effective solution of water, glucose, and salts that prevents death and brain damage from dehydration; (3) child-spacing information and services, particularly in areas where high parity and very early marriage contribute significantly to female morbidity and mortality; and (4) the integration of nutrition education, monitoring, and food supplements into PHC services. The 1984 AID health budget of \$134,880,000 includes allocations for ORT activities and supplies at double the previous year's levels, and a similar expansion of AID support for immunization projects is planned for 1985.

Worldwide dissemination of ORT and support of research on methods of preventing dehydration at the onset of diarrheal episodes have been a key focus of AID health assistance. The causes of diarrhea are basically a combination of viral diseases, malnutrition, and very high levels of infectious illness related to environmental conditions. Although not all of these conditions are within the capacity of donor agencies (or even governments) to control, ORT combined with maternal education appears to be among the best available methods of reducing infant mortality in developing countries. Another important outcome of this approach is the likelihood that, when infant mortality levels begin to fall as a result of this intervention, family planning programs will have much greater meaning to poor families reliant on children for income and old-age security.

In addition to these four priority areas, AID has begun to increase its assistance for research to develop and adapt vaccines to control diseases such as malaria and rotavirus. Emphasis is placed both on supporting basic scientific research for the development of new and improved vaccines and on developing management and logistics systems capable of carrying out wide-scale immunization campaigns over time. This support has contributed to steady progress in the development of malaria and rotavirus vaccines. In 1983 and 1984 several scientific breakthroughs led to plans for in vitro trials of malaria vaccines using rhesus monkeys, and increased the probability that a rotavirus vaccine capable of preventing serious diarrheal disease will be available by 1990.

Developing institutional capacity for water and sanitation planning and financial management continues to be a focus of assistance, particularly in rapidly urbanizing countries. In rural areas, construction of small-scale potable water projects complements PHC projects in several countries of Latin America, Africa, and the Near East.

#### International Assistance for Health Programs

Major health campaigns promoted by multilateral donors during the 1980s have been severely offset by balance of payments problems and inflationary pressures in many of the poorest countries, resulting in stagnation or actual reductions in health budgets. Per capita health expenditures by developing countries are currently estimated to be around \$2 to \$3. Assistance from bilateral and multilateral donors for all nutrition, sanitation, and PHC programs is over \$1 billion per year, yet it provides only a fractional addition to these per capita expenditure levels.

In 1984, donor funding for assistance with implementation of the four most basic health services (immunization, ORT, nutrition education, and family planning) in the least developed countries was estimated to be about \$2 billion annually. However, drought conditions in Africa are resulting in catastrophic and potentially catastrophic famine and malnutrition throughout the Sahel region, and additional vast external expenditures are required in the hardest hit countries in order to regain life expectancy prospects of past years. Clearly, strong political commitment from developing countries as well as increased assistance from donor agencies will be required to achieve the common goals of improved health status among the poorest of the poor.

#### Health Prospects for the Near Term

One of the most encouraging aspects of AID health assistance has been the creation of institutional capacity to plan and manage the financial aspects of PHC and sanitation projects in widely varying countries. Continuing dialogue with recipient countries also has contributed to a widescale trend among developing countries to devote increasing proportions of their health budgets to cost-effective PHC activities rather than hospital construction and operation.

In addition, many of the projects demonstrating alternative group financing and/or cost recovery schemes have shown considerable potential for continuity, and offer important lessons for future pilot projects. Continuity is also a key feature of social marketing projects, in which AID support is building a productive relationship between private sector marketing and production capacity, and public PHC policies.

### 4.3 ENERGY, ENVIRONMENT, AND NATURAL RESOURCES

#### 4.3.1 Energy

##### US Policy Objectives for Energy

AID's energy assistance activities are designed to meet the following basic objectives: (1) to help develop sound national energy policies that are integrated with national economic policies and supportive of sustained economic growth; (2) to expand the production of indigenous energy sources that can be substituted for higher cost imported energy wherever economically justified; and (3) to improve the efficiency of energy use. AID energy programs offer technical assistance for analysis, planning and policy development, and development of domestic energy supplies; training and institution building; research and technology transfer; and the encouragement of private investment. AID provides capital assistance only in a few special countries, because private sector investment is considered the primary means of financing domestic resource development and the technologies required to effectively use these energy resources.

##### The World Energy Situation

During the last 10 years, both developed and developing countries have had to adjust to rapidly changing energy prices. Between 1973 and 1980, the price of petroleum increased fivefold, creating serious balance of payments problems for many AID-assisted countries and diverting capital resources from important development programs. Although the dollar price of oil has declined somewhat since 1983, this decline has brought surprisingly little relief to most AID-assisted countries. Oil import costs for most of these countries have, in fact, continued to climb because the value of their currencies has fallen against the dollar. At the same time, the apparent decline in oil prices has discouraged the private investments necessary to ensure adequate future supplies of energy--conventional fuels such as oil, gas, and coal as well as renewable sources--especially for the indigenous resources of developing countries.

The situation is critical because as countries develop they need increasing supplies of energy to support their expanding populations and to meet the needs of their developing economies. Moving beyond the subsistence level requires substantial inputs of commercially marketed energy to increase agricultural productivity and industrial output, to transport goods, and to improve the general quality of life. Unless investments are made now to develop these resources, future development efforts will be hampered.

In recognition of the critical need for private investment to develop commercially marketed energy resources, the Overseas Private Investment Corporation (OPIC) has increased its efforts to provide political risk insurance and loan guaranties to US investors for the exploration and production of hydrocarbon resources in developing countries. In FY 1984, OPIC issued 10 political risk insurance contracts on major primary petroleum projects; it has more than 83 registrations from 41 companies for future projects in 37 countries.

Certainly much attention has been focused on the problems concerning world petroleum resources, but most developing countries also face serious shortages and sharply rising prices for traditional fuels such as wood, charcoal, dung, and crop residues. Such fuels are critical to the survival and basic subsistence needs of a large proportion of the population in AID-assisted countries.

#### US Energy Assistance

AID provided \$57 million in development assistance in FY 1984, supporting a wide range of activities to assist developing countries in formulating policies and programs to effectively use scarce energy supplies and to secure the capital assistance to develop domestic fuel supplies. A key element in the AID program is support for energy planning and policy development. Technical assistance is provided to help countries assess their domestic energy resources and to make projections of the amount of energy required to meet industrial and agricultural development goals and to support expanding transport networks and increasing commercial and domestic fuel needs. Assistance is also provided to help countries develop efficient pricing and investment policies to encourage the exploitation of economic, local energy resources and the adoption of energy-efficient processes and equipment in key economic sectors such as industry and transport. Technical assistance and training services are also provided to develop energy conservation programs.

During the last year, AID and a number of other donor agencies have begun to examine the renewable energy projects funded during the last several years. Some renewable energy technologies are being viewed with increasing skepticism as costs remain high compared with more conventional technologies. Furthermore, because many projects were set up as demonstration efforts in response to host government requests, little attempt was made to match resources and the associated technologies with given uses, such as water pumping, mechanical power, or transport fuels. Projects are now being initiated by AID, in cooperation with other donors and developing country institutions, to develop information for consumers about the real costs and operating characteristics of these systems and to ensure that future renewable

energy programs are carefully designed to match needs and support systems.

Several research activities are being supported, including a major fuelwood research program focusing on multipurpose trees, natural forest management, and more efficient systems for matching tree species with soil and climate conditions. Other research efforts include a project to test the economic and technical possibilities of developing an integrated sugar, molasses, and fuel production system.

#### Energy Prospects for the Near Term

The current outlook is that dollar crude oil prices should remain soft over the next few years, but most analysts predict that real prices will begin to rise in the late 1980s. Even today, however, the magnitudes of current oil imports represent major demands on foreign exchange earnings in many countries.

The crisis in traditional fuels (fuelwood and charcoal) will continue, despite some reforestation and on-farm planting efforts. Supply deficits in most countries will become greater in the next few years as a result of expanding populations and lack of adequate new supplies.

#### 4.3.2 Environment and Natural Resources

##### US Policy Objectives for the Environment and Natural Resources

The objectives of AID's environmental policy are (1) to ensure the environmental soundness and long-term sustainability of all AID assistance programs and projects, (2) to assist developing countries to identify and solve their environmental and natural resource problems by strengthening their institutional and scientific capacity, and (3) to promote environmentally sound development projects funded by other donors. This policy reflects the recognition (1) that the achievement of economic development in the Third World must be based on environmentally sound planning to assure a sustainable natural resource base and (2) that AID and other donor agencies must ensure that their development programs are environmentally sound.

During the last year, AID issued new program and policy guidance encouraging its Missions to work with host governments and private organizations for the protection and preservation of humid tropical forest ecosystems.

In response to a 1983 amendment to the Foreign Assistance Act, AID chaired a Federal interagency task force to develop a

strategy for the conservation of biological diversity in developing countries. The report, submitted to Congress in early 1985, concludes that many valuable and productive resources--including tropical forests, marine and coastal ecosystems, arid and semiarid lands, alpine zones, fresh water, watersheds, and wetlands--are rapidly deteriorating. The report outlines major biological diversity conservation issues and current US agency programs and presents a series of recommendations for further actions by AID and other Federal agencies, nongovernmental and international organizations, and other donors.

#### The World Situation for Environment and Natural Resources

Developing countries are facing increasingly serious environmental and natural resource problems. These include reduction of tropical forest cover, exhaustion of crop lands, the decline and depletion of fisheries and wildlife, advance of desert frontiers, increasing conflicts over the use of water, adverse consequences of indiscriminate use of pesticides, and lack of effective industrial and urban pollution control.

Deforestation is one of the most serious environmental problems facing developing countries. An estimated 11 million hectares of tropical forests disappear each year. The removal of this forest cover increases desertification, soil erosion, flooding, and siltation, as well as affecting the survival of thousands of plant and animal species. Scientists estimate that about 1,000 tropical species disappear each year and that the number could rise to as much as 10,000 a year by the end of the decade. The current rate of extinction is far higher than the rate at which new species are introduced and will, no doubt, accelerate as the food needs of growing populations increase, creating the need for new agricultural lands.

Inappropriate soil and water management of existing agricultural land has resulted in the loss of topsoil, salinization, compaction, and waterlogging. These present especially serious problems for poor farmers living on marginal lands. Earlier mismanagement of land and water resources has created problems that often lead to mass starvation and refugee movement, especially in times of drought.

Coastal and marine ecosystems are also under stress, the result of overfishing, pollution, and the failure to adequately manage coastal resources for sustained development.

#### AID Environmental Activities

AID carries out a range of environmental and natural resource management activities, including environmental impact

assessments of all its major project activities. In addition, AID has provided funding for a series of environmental and natural resource profiles in over 20 developing countries. The reports examine the current state of the natural resource base in these countries as well as their environmental regulations and institutions charged with managing natural resources and protecting the environment. These profiles, conducted with substantial local support, represent an effective way of focusing the efforts of host governments, the donor community, and environmental organizations on critical, local natural resource problems. For example, in part as a result of such profiling, the AID assistance program in the Dominican Republic has been re-directed to focus on soil and water conservation, reforestation, and energy conservation.

A new Coastal Resources Management project is working with government and private economic interests to evaluate economic and ecological tradeoffs of alternative development programs and to devise national plans which optimize the productivity of major coastal resources. Initial efforts are beginning in Ecuador; other efforts will be carried out in several Asian countries.

AID also provides support to nongovernmental organizations. For example, in Ecuador, Fundacion NATURA prepared the Ecuador Environmental Profile, helped the general public understand its findings, and was instrumental in drafting new environmental legislation.

#### Environment and Natural Resource Prospects for the Near Term

There is little prospect for rapid, near-term improvements in the natural resource degradation facing most developing countries. As long as improper management permits population growth to outstrip the productivity of existing agricultural lands and of other critical natural resources, these resources will continue to be under stress. With careful management and long-range planning, however, many of these resources can be sustained and in some cases upgraded, ameliorating the most harmful effects of the pressures created by expanding populations and of economic growth.

#### 4.4 POLITICAL DEVELOPMENT AND HUMAN RIGHTS

##### 4.4.1 US Policy Objectives for Human Rights

The promotion of human rights throughout the world is a key element of US foreign policy, cutting across a broad spectrum of policy issues. The United States encourages the strengthening of democracy as the best guarantor of human rights, a policy that both accords with its humane traditions and contributes to the protection of peace and security. As President Reagan told the UN General Assembly in September 1984, "The Government of the United States will continue to view this concern for human rights as the moral center of our foreign policy." AID supports this approach by emphasizing the integral role of human rights in the overall AID program.

The US Government recognizes two basic categories of human rights, which should be enjoyed by all people without discrimination based on race, sex, language, or religion. First, all individuals should be free from violations of the "integrity of the person," such as political killings, torture, cruel treatment or punishment, arbitrary arrest or imprisonment, denial of fair public trial, or arbitrary interference in personal life. The second category comprises a group of political and civil rights, encompassing freedom of religion, speech, and press; freedom of association, including the right to form free trade unions; freedom of movement both within and outside national borders; and the right of citizens to change their government through free elections.

The United States also acts from the belief that a connection exists between the satisfaction of such basic needs as adequate food, shelter, health care, and education and the development of democratic institutions. As President Reagan also told the UN General Assembly, "Economic freedom is a prelude to economic progress and growth--and is intricately and inseparably linked to political freedom." The developmental side of the human rights activities of AID is an express recognition of the US policy that civil and political rights cannot be separated from economic development.

US human rights policy combines a "negative" or reactive element that works to increase respect for basic human rights by responding to individual violations as they occur--through diplomatic means and through documenting the human rights records of individual countries in an annual report to Congress--and a positive element that encourages democracy and the rule of law. An important part of the positive aspect is section 116(e) of the Foreign Assistance Act, which authorizes the expenditure of not less than \$3 million "for studies to identify and for openly carrying out programs and activities which encourage or promote

increased adherence to political and civil rights...." Under this section, AID sponsors specific projects to stimulate and encourage awareness of the principle of civil and political rights in developing countries, adherence to the rule of law, and development of democratic principles and institutions that promote human rights.

#### The World Situation for Human Rights

US human rights policy has contributed to the growth of encouraging trends in the extension of human rights in all areas of the world. Because of the UN's sharpened focus on the human rights performance of all countries, many countries in which human rights have not been fully protected are demonstrating a greater awareness of the need to respect the integrity of the person. This is seen in those countries' increasing sensitivity to outside criticism of their rights records and their willingness to discuss constructively their individual human rights situations. As part of this trend, a reduction in human rights abuses can be documented in some areas, using quantifiable rights violations such as the number of political killings or arbitrary arrests. Measurable progress has also been made in gaining respect for civil rights in many developing countries. For example, the right of workers to organize and bargain collectively, although effectively denied in many countries, is gradually enjoying greater acceptance. More remarkably, the role of women is improving in almost every country when measured in terms of participation in economic and political life, although social and traditional patterns are slower to change.

Much of this progress results from increased international attention to human rights, encouraged in turn by the central place accorded human rights in US foreign policy. A significant amount of progress results directly from specific policy programs ranging from educating citizens and training authorities in basic civil rights to providing assistance in the creation of more effective judicial or legislative machinery.

It is no coincidence that recent years have also seen a substantial strengthening of democracy in many parts of the world. The desire for genuine self-determination is being realized most dramatically in Latin America, where there has been a tremendous democratic upsurge. Over the last 5 years, elected civilian presidents have replaced military rulers in Argentina, Bolivia, Ecuador, El Salvador, Honduras, Panama, Peru, and Uruguay. As a result, more than 90 percent of the people of Latin America and the Caribbean live in nations that either are democratic or are moving toward democracy. In many countries, free and democratic elections have been a natural outgrowth of increased respect for basic civil rights such as freedom of assembly, freedom of expression, and freedom of the press.

Unfortunately there are exceptions to this encouraging record. In many nations throughout the world, most notably the Communist countries and developing lands under Communist influence, the protection of human rights remains a distant goal. In many others, however, some groundwork for progress has been laid. In South Africa, for example, the reactive (negative) element of US human rights policy is being brought to bear against the grievous human rights violations of apartheid by speaking out against the system. At the same time, under the Kassebaum/Percy amendment to section 116(e) of the Foreign Assistance Act, \$1 million is available to organizations or activities that promote "political, economic, social, judicial, and humanitarian efforts to foster a just society and to help victims of apartheid." AID projects undertaken using the positive element of US human rights policy have been aimed at, for example, providing for the development of a legal framework conducive to human rights, encouraging development of democratic principles and institutions that promote human rights, supporting development of the trade union movement, and encouraging the equal access of women and men of all races to the judicial system and the political process.

#### Human Rights Prospects for the Near Term

AID will continue its support of its human rights program while introducing some new initiatives to promote democracy. One area targeted for future assistance is the support of legislatures. An example of activity undertaken in this area in FY 1984 is the training of all newly elected legislators and support of the Center for Legislative Support in the Dominican Republic. On a selective basis, AID will provide assistance in democratic elections.

Such positive programs, wherever they are carried out, must be an effective and important extension of US human rights policy. Selecting an effective mix of positive and reactive elements can be very difficult, because results are often seen only over time. In the long run, however, it is evident that positive programs encouraging peaceful change by strengthening civil and political rights will contribute significantly to US foreign policy goals.

## CHAPTER 5

### LINKING TRADE AND DEVELOPMENT: PART OF THE SOLUTION

Historically, international trade has been acknowledged as a key to facilitating economic growth and development. A relative newcomer in the historical line of economists to write on the subject, Alfred Marshall noted in his Principles of Economics (1920) that "the causes which determine the economic progress of nations belong to the study of international trade." Well before economists developed a theory of trade, it was apparent that trade was critical in the rise to prosperity of many countries.

The simple logic of international trade is compelling: exchange of goods and services within national borders yields a higher level of output, because exchange permits producers to concentrate efforts where they are most productive (i.e., to specialize) and because specialization itself causes output to increase beyond what it would be otherwise. A higher output level means citizens have more to consume, more to save and, therefore, more to invest. More investment increases the rates of growth in both output and productivity. It logically follows that the same beneficial effects occur when exchange is extended across national borders.

Indeed, the preceding is an understatement of the value and the significance of trade. There are other reasons, which will be discussed later, why international trade is particularly crucial to the development process in developing country economies. The purpose of this chapter, however, is not simply to praise international trade as an economic development mechanism, but to discuss the trade phenomenon in a real setting. In spite of the analytical pronouncements of economists, the innumerable historical examples (imagine what the level of income or state of development would be in Korea, Japan, Singapore, or even Iowa without trade), and the apparent logic, many developing and industrialized countries have policies that impede trade.

#### 5.1 US VIEWS ON TRADE

It is fundamental US policy to promote the expansion of international trade, based on the knowledge that long-term growth in the United States and in any other economy depends on and is aided by growth in trade among economies. The United States also recognizes that poorer economies are smaller traders, that acceleration in economic development accelerates the growth of trade and that, over time, the contribution of trade to development decreases the need for concessional assistance. Thus, it is in

the larger US interest to seek ways to help developing countries increase their trade up to the limits of their individual resource endowments and levels of economic development, within the context of a market-oriented international division of labor.

Trade in goods and services is not the only means to improve efficiency and increase global output. Labor and capital can also move across national borders, with the latter being particularly important. Relative to global trade in goods and services, labor is much less mobile, especially in the post-World War II period. Trade is an alternative means to achieving a more productive division of labor.

Section 5.2 describes the economic characteristics of countries and how these characteristics influence the structure of trade in a developing country. Section 5.3 describes trade as an explicit strategy to accelerate economic development and briefly explores the economic assistance/trade issue.

## 5.2 ECONOMIC CHARACTERISTICS AND TRADE STRUCTURES OF DEVELOPING COUNTRIES

Economic characteristics affect the relative importance of trade in an economy's development program, the composition of its exports and imports, and the choice of trade strategy. It is possible to make the following generalizations: trade tends to comprise a larger proportion of economic activity in countries with smaller populations, and few natural resources--or abundant quantities of one of two natural resources (e.g., oil). Furthermore, the share of trade in gross domestic product (GDP) tends to increase with the level of development. In this chapter, the term "developing countries" refers to about 65 oil-importing economies with 1982 per capita incomes between \$80 (Chad) and \$1,610 (Paraguay). There is another 20-country "upper-middle income" group to which the discussion closely relates--including the "newly industrialized countries" (NICs).

The relative size and structure of a country's exports change with growth in income and thereby reflect a correlation between trade and development. The share of exports as a proportion of GDP tends to increase. World Bank data show that in 1982, for 92 countries (no East European nonmarket economies) exports averaged 11 percent of GDP for the lowest income economies (8 percent if China and India are included); 22 percent for the lower middle-income group (oil-importers); and 24 percent for the upper middle-income group. (The average export share drops back to 19 percent for the industrial market economies, but if the United States [9 percent] is taken out, the average exceeds 24 percent.) The structure or composition of any one economy's exports reflects several variables such as natural resource

endowment, level of development, and economic policies. There is a general pattern, however, in which the composition of an economy's exports shifts from unprocessed commodities to include processed commodities, resource-based manufactures, and simple manufactures. Over time, within the manufactures category, exported products become more skill intensive, and finally, for the advanced economies, entirely new or highly innovative products are exported.

A shift in export composition from primary and resource-based goods towards manufactures does not necessarily describe the evolution of all countries' export structures. For example, commodity and resource-based exports have retained significant shares of total exports in some advanced economies such as New Zealand, Denmark, Canada, the United States, Australia, and Brazil.

A country may export a wide range of products if it is both industrialized and has a diverse resource base. For example, the United States exports both large amounts of unprocessed agricultural commodities and advanced technologies. At the other extreme, the exports of the Sub-Saharan African countries are highly concentrated, reflecting the countries' low income levels and, in most cases, relatively limited resources endowments. The average share of agricultural commodity exports in total exports for 28 oil-importing countries of Sub-Saharan Africa is 63 percent. Mineral exports average 53 percent for 11 Sub-Saharan mineral exporters, with mineral exports greater than 10 percent of total exports.

India and China have an unexpectedly high proportion of manufactured exports relative to their income levels. This partially reflects the relative abundance of labor as a resource and the fact that, because the large size of the domestic markets can accommodate large-scale manufacturing enterprise, some manufactures can also be competitive on international markets.

The data in columns two, four, and five in Table 5-1 illustrate diversification in exports as the relative share of primary exports diminishes and the proportion of manufactures increases relative to rising national income levels. The proportion of minerals and fuels exports (column one) is random relative to income per se, but the extent to which the mineral is exported tends to be influenced by the level of development of the originating economy.

Three country groupings are particularly interesting for their export composition and growth rates. The most advanced group is the newly industrialized countries (Argentina, Brazil, Hong Kong, Taiwan, Israel, Mexico, Singapore, Korea, and Yugoslavia), which have grown and developed within the last 20 or fewer years to become sophisticated economies with substantial industrial sectors. These economies are notable for the rapid

Table 5-1. Percentage Shares of Merchandise Exports  
of Developing Countries, by Income Level, 1981

Country Group	Fuels & Minerals	Other Products	Textiles & Clothing	Machinery & Transportation Equipment	Other Manufactures
Low-Income (\$80-\$390 GNP per capita)	16	54	21	1	8
Lower-Middle Income (\$440-\$1610 GNP per capita)	43	39	6	2	10
Upper-Middle Income (\$1680-\$6480 GNP per capita)	29	18	12	14	27

Source: World Bank, World Development Report 1984, Annex 1, Table 10.

growth in their exports of manufactures relative to more traditional exports. Rapid expansion of manufactured exports has been instrumental in their economic growth and has helped them to evolve from minor trading partners with the United States and other Organization for Economic Cooperation and Development (OECD) countries to significant suppliers and buyers in the international economy. The NICs emerged after sustained growth in the 1960s and early 1970s, starting with exports of textiles, apparel, footwear, small electrical goods, and other simple manufactures; they gradually shifted into exports of engineering goods such as transport equipment, nonelectrical machinery, and iron and steel.

In the 1970s a set of 12 new developing country exporters emerged--Sri Lanka, Cyprus, Thailand, Indonesia, Peru, Jordan, Uruguay, Malaysia, Tunisia, Philippines, Colombia, and Morocco (Havrylyshyn and Alikhani, Finance and Development, June 1983, pp. 9-12)--demonstrating export growth rates even higher (38 percent average annual, 1970-79) than the NICs during the same time period (29 percent average annual). The export composition of the "group of 12" was similar to the NICs at an earlier stage in their development, except more of the new group exported resource-based manufactures such as wood products, fertilizers, and crude iron and steel products.

The poorer developing countries, including the least developed economies, have experienced the lowest export growth rates. Some of the reasons behind this slow growth are that primary products--agriculture and nonfuel minerals--comprise nearly all their exports, and world demand for agricultural exports has expanded at about 4 percent per year, while the growth in demand for nonfuel minerals is slightly less than 4 percent. The developing country share of world agricultural exports actually declined through the 1970s. This trend has been especially marked in Sub-Saharan Africa where the region's share of developing country nonfuel exports to the world dropped from 18.6 percent in 1970 to 9.2 percent by 1978.

Based on World Bank estimates, the outlook for annual growth in the exports of developing countries is consistently higher for manufactures at 7.5 percent than for primary products at 2.1 percent (1985-95, low case; see Table 5-2), but both rates are somewhat lower than growth rates achieved in the 1960s and the first half of the 1970s. Although low-income African countries might attain a 6.6 percent average growth in manufactures in the next decade, total African export expansion is expected to average only 2.2 percent because of slow growth in primary exports.

Table 5-2. Estimated Growth in Developing Country (LDC) Exports,  
1980-85 to 1985-95  
(average annual percentage change)

	<u>Exports of Manufactures</u>			<u>Exports of Primary Goods</u>		
	1980-85	<u>1985-95</u>		1980-85	<u>1985-95</u>	
		High Case	Low Case		High Case	Low Case
All LDCs	8.1	9.7	7.5	4.0	3.4	2.1
Low-Income	8.2	9.3	7.1	2.6	4.1	3.1
Asia	8.5	9.3	7.2	2.1	4.6	3.6
Africa	0.9	8.9	6.6	3.8	2.8	1.9
Middle-Income						
Oil Importers	8.1	9.7	7.6	4.5	3.2	2.4
Major Exporters of Manufactures	8.4	9.8	7.6	4.8	3.8	2.9
Other	5.0	9.0	7.3	3.9	2.0	1.2

Source: World Bank, World Development Report 1984, pp. 36, 37.

### 5.3 INTERNATIONAL TRADE STRATEGIES IN DEVELOPING COUNTRY ECONOMIC DEVELOPMENT POLICIES

All developing country economies engage in international trade but, given their economic characteristics and their choice of trade policy, the degree of participation varies. Developing countries may adopt a trade regime that, on balance, follows an inward-looking (or import-substitution) policy, or an outward-looking (or export-promotion) policy. Typically, the policies are mixed: there are simultaneous efforts to protect domestic industry from foreign competition and measures to promote, or at least not impede, certain exports.

It is US policy to encourage developing countries to adopt trade policies that place major reliance on market forces, that is, to minimize measures that either discourage or encourage trade through economic distortions. For example, the United States is opposed to high effective protection rates whether they be in the form of import tariffs or export subsidies.

In the 1950s and 1960s many developing country policymakers held the view that an import-substitution trade policy was an efficient approach for accelerating development. Inward-looking development strategies typically involved high effective rates of protection for selected industries--especially for intermediate and basic goods--and an overvalued exchange rate. Analyses in the late 1960s and 1970s established that even where exports were not explicitly taxed, import-substitution policies tended to impose substantial hidden taxes on exporters, to subsidize imports, and to engender policies that impeded growth. Starting in the 1960s and continuing through the 1970s, a growing number of developing countries moved from import-substitution trade policies to more market-oriented approaches.

Given that evidence and economic reasoning present a strong case in favor of a market-oriented, outward-looking trade policy, it would seem that adopting such a stance would not be controversial. But it is. Many developing countries restrain trade and some have, or have exercised in the past, explicit policies to minimize involvement in the international economy (e.g., Burma, Ghana, and Tanzania).

Almost all countries tax or restrict imports to some degree, and the degree tends to be higher in developing economies. Furthermore, many developing countries (with a higher incidence among the poorest) have overvalued (official) exchange rates. Trade restrictions and overvalued exchange rates handicap export producers. Import restrictions raise exporters' production costs and overvalued exchange rates lower the price of their output in terms of domestic currency; the result is an anti-export bias.

Minimal trade barriers, realistic factor prices, and an equilibrium market exchange rate system are necessary policies for successful trade performance, but a few developing countries employ an array of complementary policy measures intended to direct resources into the export sector in an effort to accelerate export growth. The efforts may have specific objectives such as increasing levels of traditional exports, the value-added content of existing exports, or export diversification. The complementary policies vary in degree and number for each case, but a partial list includes minimization of net charges on import inputs; allocation of investment in infrastructure to favor export production; measures to direct investment and credit toward exports; and subsidizing training, research, and development of external markets. Some developing countries attempt to encourage local processing of domestically produced commodities by imposing export taxes or even by graduating export taxes according to the level of processing, with the highest tax on the least processed stage.

The preceding only lists measures employed by some developing countries. All of the measures are not always effective, nor are all of the economic effects always desirable. Furthermore, as noted above, the United States opposes measures such as export taxes or subsidies because they can cause prices to differ from actual costs of production; that is, they cause economic distortions. However, in practice, it is not always a straightforward issue because a subsidy, for example, may only serve the purpose of offsetting taxes on inputs and thereby have little or no net distortion effect. The preferred approach is to do away with taxes on inputs and subsidies on outputs.

Developing countries' export strategies also incorporate foreign investment substrategies to attract foreign capital, production technology, and marketing information; to be neutral; or to be biased against foreign investment. Again US policy favors a market-oriented approach, and the United States is opposed to foreign investment programs that provide net subsidies or discourage foreign investment. For example, the United States is opposed to developing countries' granting foreign investors tax breaks or subsidized credit or requiring that a set proportion of output be exported (export-performance requirement). These measures tend to distort trade and investment.

On the other hand developing countries may also employ measures that essentially offset nonbusiness risks such as agreements concerning profit repatriation or protection of investment and proprietary information. Some developing countries are responding to the problem of investment risks by signing bilateral investment treaties with investor countries. Such treaties commonly have provisions on nondiscrimination, compensation for expropriation, free transfer, and the resolution of investment disputes through international arbitration.

A few developing countries have relieved skill constraints in their efforts to increase export growth by adopting liberal policies toward the use of skilled foreign labor. The Ivory Coast, for example, has admitted substantial numbers of higher skill foreign workers and has allowed low-skill foreign workers to immigrate, thereby releasing Ivorians for mid-level jobs. Although more modest than the Ivory Coast, Malawi has employed a similar approach.

Policies to direct resources into the export sector at some rate faster than ordinary market signals indicate are not a panacea for growth problems. However, some developing countries view these policies as a way to compensate for structural weaknesses and as a means to create comparative advantage in selected areas. Such policy approaches are tailored to specific developing economies, and the more aggressive programs are associated with the more economically advanced developing economies. The poorer developing countries have tended not to adopt strongly aggressive export strategies. They have structural problems, but they tend to lack the institutional and administrative capabilities needed to design and implement such programs. One lesson that has been learned by many developing countries is that a moderate export orientation, based on market signals, is an important part of a durable development program. The United States also believes that increasing the influence of the market system in the trade regimes of the poorer developing countries is essential in their efforts to improve their export performance.

Several major elements combine to yield sustained overall economic growth in addition to a market-oriented, outward-looking trade policy. For example, an assessment of why the East Asian economies achieved higher growth rates than most other developing countries in the 1970s and early 1980s lists the following elements in addition to trade (P. Hasan, Finance and Development, December 1984):

1. Primary reliance on market forces
2. Pragmatic (nonideological) economic management
3. Political continuity and a generally strong government commitment to development
4. A strong emphasis on education
5. Few state interventions
6. A high investment rate
7. No discrimination against agriculture

The central point is that each of the preceding seven characteristics plus an outward-looking trade policy interact to reinforce one another. In the East Asian case, the combination of elements has tended to yield relatively high growth and structural transformation rates.

#### 5.4 DIFFERENT VIEWS OF TRADE AS AN ENGINE OF GROWTH

The basic case for the advantages of international trade, in principle, was made earlier. These advantages are virtually universally recognized. There is appreciable disagreement among developing country policymakers, however, about the degree of reliance they should place on trade in efforts to accelerate development. Both sides of the argument merit consideration, particularly the arguments against a reliance on trade, because they provide insight into why some developing countries adopt certain trade policies. A brief review of reservations about emphasizing trade affords some perspective on the obstacles to US efforts to encourage developing countries to place greater reliance on trade.

The arguments for introducing additional distortions to limit trade are as old as the arguments for trade, except that trade-impeding arguments usually take the form of arguments for something else, such as fostering development of a new industry or maintaining domestic employment. Antitrade arguments used by a few lower income developing countries partially reflect the concerns of small, nonindustrialized economies that are trading with larger, industrialized economies or of industrializing economies that are nurturing new industries at home. Note that what is being addressed here are some of the basic arguments against export-oriented growth strategies rather than specific restrictive trade policies practiced by those developing countries already committed to exports.

The catch-all, trade-minimizing strategy is part of an overall development strategy designed to achieve "self-reliance" quickly, meaning rapid industrialization based on import substitution and expansion of domestic markets. This strategy has several subarguments that can be used independently of the self-reliance approach. On the industry side, local industries may be protected against foreign competition based on the infant-industry argument. (A new industry experiences higher production costs, but costs are expected to decline as efficiency increases because of accumulation of experience and achievement of scale economies). On the primary product side, a developing country may eschew commodity exports because it believes the following:

- International commodity markets are unstable, thereby causing export earnings to be undependable.

- International commodity markets are controlled by the industrialized economies, which keeps prices below their true market value.
- The prices of industrial country exports rise more rapidly over time than do the prices of primary commodities, causing a chronic decline in the terms of trade.

(The preceding reasons reflect a particular way of looking at the international economy. As a routine part of the development process, a developing country's commodity exports may decline with the development of resource-based production. The output is then exported or substituted for imports; for example, cotton is processed into cloth. This process is not necessarily driven by a policy to limit trade per se.)

A second line of reasoning claims that reliance on the international economy leaves the developing country vulnerable to external shocks, or to the vagaries of the market, or to unwanted influence by foreign firms. Two popular arguments on the commodity side are (1) an export-led strategy is not viable because if all developing countries expand their exports, commodity prices will fall; and (2) increasing commodity exports will only maintain the status quo--it is not development. Some developing countries argue that the OECD countries already heavily restrict imports of processed raw materials (particularly European countries) and manufactures; therefore, pursuit of an export-led strategy would be thwarted by OECD protectionist policies.

The preceding arguments are not discussed on a point-by-point basis except to make two observations. First, with respect to commodity exports, it is correct that international demand for commodities grows slowly and fluctuates, but the fact is that production of commodities for export is the main short-term option available to many developing countries. Restraint or neglect of commodity production reduces a developing country's access to foreign exchange, which impedes its development efforts, and some developing countries have prospered from commodity exports. Part of the idea behind an outward-oriented development strategy is to diversify exports, which for many developing countries means placing less reliance on commodities. Commodity exports, however, can provide the foreign exchange to finance the shift.

The second point concerns pessimism about expanding exports of processed commodities and manufactures to OECD countries. The historical record does not support this pessimism. To the contrary, some of the most impressive development statistics for the 1970s and 1980s are those that describe the expansion of manufactured exports from developing countries to the OECD economies. (For example, manufactured exports from the group of 12 expanded

on an average annual rate of 38 percent between 1970-79, and the NICs averaged 29 percent per annum during the 1970s. (Havrylyshyn and Alikhani in Finance and Development, June 1983.)

Although many of the arguments against trade as a key growth sector are not convincing in their simple form, the arguments carry an important message that must be understood as the United States urges developing countries to place greater reliance on market forces. The poorer developing economies tend to be small; many are already substantially integrated into the international economy; and their exports tend to be concentrated. Thus, changes in international markets or economic fluctuations in industrial countries tend to exert significant influences on the levels of national income and foreign exchange earnings of many developing countries. Their concerns about further movement into the international economy are compounded, because they perceive a small safety margin for risk. Furthermore, because they have major institutional and structural weaknesses, there are severe restrictions on how rapidly they can adjust to changes in international market conditions.

Although not elegant, the most persuasive argument for an export-led development strategy is that it works. There are obvious cases of export-led growth such as Japan and later Korea, Taiwan, Brazil, and the other NICs. Systematic studies of the subject have also found a clear correspondence between economic growth and liberalization of exchange rate and trade policies. (For example, see Ian Little et al., Industry and Trade in Some Developing Countries, OECD, 1970; Bela Balassa, The Structure of Protection in Developing Countries, IBRD, 1971; Jagdish Bhagwati and Anne Krueger, Foreign Trade Regimes and Economic Development (11 vols), 1978; and Krueger (ed.), Trade and Employment in Developing Countries (3 vols.), National Bureau of Economic Research, 1981.)

An outward-looking strategy exerts a strong influence on the design of a government's domestic economic policies. An outward-looking trade program functions on the basis of market forces and competition. Domestic prices and costs must be in line with international prices and costs. In contrast, an import-substitution policy requires pervasive government involvement. In practice, government interventions tend to proliferate under import-substitution regimes and frequently include an extensive system of state-owned enterprises, many of which are inefficient. An export orientation compels moderation because of the necessity for prices to be relatively distortion free and to provide producers with strong incentives to react to signals from the international market. An export-oriented economy by definition does not have a structure that can accommodate large price distortions; it therefore is less likely to be destabilized by its own domestic economic policies.

Export-oriented economies tend to adjust more readily--with smaller economic loss--to adverse shifts in their international terms of trade. As noted earlier, most developing countries are small economies with relatively concentrated export structures, and they are dependent on imported capital goods and foreign capital inflows. They are inherently sensitive to changes in the international economy, whether the change be a rapid quintupling of oil prices, a large increase in real international interest rates, or a fall in commodity prices. Both import-substitution and export-oriented developing countries are sensitive, but the latter immediately transmit the new set of price signals through the system to initiate and to direct adjustment, whereas the policies of an import-substitution economy may succeed in masking the relative price changes. This masking only causes larger distortions, and the administered system delays adjustment while the import-substituting economy continues to allocate resources toward less productive activities.

#### 5.5 TRADE AND US ECONOMIC ASSISTANCE POLICY

The preceding sections have described developing country economies, their trade structures, and their trade policies as highly varied. Within this broad span of characteristics, there are similarities such that developing economies can be divided into three groups: (1) the NICs, which are becoming increasingly competitive with their OECD trading partners but still retain tariff preferences in some or all OECD country Generalized System of Preferences (GSP) schemes; (2) the group of 12, which appear to be well into the transition process from lower income developing countries to NICs; and (3) the poorer developing economies, which rely heavily on primary commodity exports.

US trade and aid policies essentially reflect the structural and policy differences among developing countries. The overall design of US trade/aid policy emphasizes concessional economic assistance for the poorer developing countries and encourages the more advanced developing countries to finance their development from expanding export earnings and foreign borrowing and by hosting direct investment.

In aggregate dollar terms, the value of US developing country trade is more than 10 times greater than the aggregate value of concessional assistance. For example, in 1983, US imports from developing countries amounted to \$115 billion (of which \$90 billion was from non-petroleum-exporting developing countries); Official Development Assistance was about \$8 billion in 1983.

Concessional assistance is extremely important to the poorer developing countries, partly because of their relatively low

export levels. As the national incomes of developing countries increase, trade becomes more relevant to helping them sustain economic growth. This fact is reflected in US assistance policy: as developing countries move up the income/development ladder, they move from grant to concessional loan (and, in principle) to less concessional loan terms. On the trade side, although many developing countries receive certain trade preferences, trade benefits tend to be larger the more developed the economy, because more advanced developing countries export more. Thus, as economies grow over time, trade gradually replaces aid as a source of development funds.

The United States employs a mixture of measures that are applied in a way that approximately reflects the economic problems and potentials of each developing economy. US efforts to use trade and aid to promote international economic development can be characterized with respect to the three groups of countries mentioned above. First, traditional economic assistance is emphasized for the poorer developing countries and is directed toward resolving fundamental structural problems. The terms of this assistance are the most concessional. The United States is also making an increasing effort to help the poorer developing countries improve their understanding of the importance of sound economic policies and to work with them to adapt their economies to the present international price structure. Work in the economic policy area is directed at liberalizing the developing countries' economic policy frameworks by stressing greater reliance on markets to guide economic decisions and on the private sector to manage economic activities. This kind of policy emphasis both promotes and is helped by liberal trade and exchange policies. The latter, of course, reduce the bias against exporters, who tend to be in the private sector.

US trade/aid practices for countries such as those in the group of 12 emphasize trade more than aid. Many of the 12 still receive concessional assistance, but the grant element is less. Some assistance takes the form of efforts to increase export capability through the Overseas Private Investment Corporation's programs to encourage US investment in developing countries, and the provision of specific technical advice such as how to meet importing country packaging and quality standards. The United States continues to emphasize improvements in economic policies, but this group tends already to be more export oriented, although there is ample scope for making improvements in specific policy areas. On the trade side, because of their level of development, they are in a better position to take advantage of preferential access offered by the US GSP program. The US Trade and Development Program, under the auspices of the US International Development Cooperation Agency, provides assistance in the form of grant-financed planning services to some countries in the group of 12 and to countries in the NIC group.

The NIC group includes several AID graduates, and most of the countries do not receive concessional economic assistance. (Israel is a notable exception.) Primary reliance is placed on preferential trade measures such as the GSP. Limited technical assistance is provided through US support of UN organizations that advise on technical aspects of exporting.

## CHAPTER 6

### US DEVELOPMENT ASSISTANCE POLICIES

#### 6.1 BROAD OBJECTIVES AND KEY POLICY EMPHASES

The broad objectives of US bilateral assistance programs are (1) to promote stability in friendly countries by assisting them to overcome their financial difficulties and (2) to help developing countries create the conditions for self-sustaining growth of a kind that permits the poor to participate in and to benefit from the growth process. These two broad objectives are linked: lack of stability undermines long-term progress, and conversely, widespread poverty and economic stagnation breed popular discontent and instability.

Meeting the basic human needs of the poor in developing countries is a central and integrated focus of AID assistance programs. Poverty alleviation and elimination are important operating concepts in AID programming. Most basic human needs are met directly when people are productively employed, and the key services of education and public health are more efficiently provided when each member of a society is able to contribute to the financing of these services and, in doing so, to become involved in monitoring their provision. AID believes that the best way to meet basic human needs is through programs that establish favorable policy environments, stimulate and strengthen the private sector, develop and strengthen local institutions, and develop and adapt technology to meet the needs of the poor.

Over the last 4 years, AID has made some basic changes in its approach to development assistance. AID focuses its efforts on achieving systemic change that affects the structures within which development occurs.

Four key policy emphases cut across all programs of US bilateral economic assistance. AID programs and projects, concentrated in sectors where the United States has special expertise-- food and agriculture, energy, and human resources development-- are designed and implemented in consonance with these four emphases. They are as follows:

- The use of assistance to support aid-recipient countries' own economic policies when they are deemed effective, and to promote their improvement when they are deemed ineffective for long-term economic development

- Promotion of open and competitive markets and the support of public policies that permit the exercise of the indigenous private sector's initiative and ingenuity
- Assistance in the creation or strengthening of effective local institutions that alone can mobilize the human effort, physical and financial capital, and other resources needed for economic growth
- Assistance to aid-recipient countries to develop, apply, and adapt technical innovations

## 6.2 POLICY DIALOGUE

AID has brought to the fore, as at no previous time in the history of development assistance, the principle that long-term development depends heavily on the nature of policies followed by developing countries and that major development constraints are rooted in inappropriate and ineffective government policies in developing countries. The concept that developing countries must be held responsible for their policies--and ultimately for their own development--is now widely accepted within the international donor community. US development assistance, particularly through the field Mission structure of AID, has a unique capability to engage developing countries in direct and sustained policy dialogue, encouraging and assisting them to adopt and implement this principle in their policies and programs.

Key aspects of AID's policy dialogue approach are as follows:

- Pursuing policy reform efforts at the macroeconomic, sectoral, and project level, as appropriate to particular country circumstances. Policy dialogue is emphasized in AID's planning process, in the development of country strategies, and in the implementation of programs and projects. AID's interests in the "policy framework" range from exchange rates to agricultural prices to the use of community health workers in transmitting effective low-cost health technologies.
- Recognizing that policy reforms are complex steps. All policy reform proposals require careful analysis of the economic and social impacts of the specific changes under consideration.
- Recognizing that all policy dialogue efforts must be conducted with sensitivity and that existing policies are generally in place because they benefit some segment of the economy and may serve important local political objectives.
- Working in concert with other bilateral and multilateral donors to the extent possible, with particular emphasis on a leadership role for the IBRD and the IMF, where appropriate. At the same time, AID seeks coordination between IBRD and IMF policy reform efforts and its own focus on long-term development and basic needs.

In the policy dialogue process, bilateral assistance programs encourage the use of market mechanisms for the determination of prices and the allocation of resources. These programs also encourage greater reliance on the private sector to carry out specific development activities, as well as to be the major

source of growth and employment. The results of these efforts to date are encouraging. Third World countries are increasingly coming to realize the importance of a sound policy framework as the key to their long-term economic health. In this changing environment, more opportunities will be available for US companies to make an expanded contribution to Third World development, through trade, direct investment, or the execution of specific development projects.

### 6.3 PRIVATE ENTERPRISE

The US heritage of development through private initiative provides the guiding principle for AID's approach to economic progress in developing countries. A society in which individuals have freedom of economic choice, freedom to own the means of production, freedom to compete in the marketplace, freedom to take economic risk for profit, and freedom to receive and retain the rewards of economic decisions is a fundamental objective of the US development program in developing countries. The development experience of the last two decades suggests that the developing countries that have made the greatest strides toward broad-based, self-sustaining growth have been the ones that have relied on private enterprise and market forces in a policy and regulatory environment conducive to business investment and growth. This growth has been closely associated with reduced levels of absolute poverty.

AID recognizes the unique contribution of the private sector to economic growth and development and believes that a free-functioning marketplace results in the most productive and efficient allocation of resources. When complemented by prudent management of necessary government services, the aggregate effect of individual free market behavior is growth and development of the economy at large. Accordingly, the United States encourages policy reform, as discussed in the preceding section, that fosters free and open climates in trade, private financial flows, and domestic markets in developing countries.

The principal goal of the emphasis on market solutions to development problems is to promote the economic well-being, security, and independence of a society's citizens by enabling them to produce and sell goods at prices reflecting market conditions. Economic freedom for individuals--an essential condition for viable competitive markets--encompasses the principle of the right of people to make personal choices in providing for their livelihood and that of their families. Such economic freedom permits individuals to pursue, within the bounds of generally accepted norms of behavior, activities that utilize their comparative advantage in innate capabilities, acquired skills, and interests. This action encourages and rewards increases in productivity and provides income that enables individuals to support themselves.

Stimulating the flow of private technical and financial resources within and among developing countries, as well as from industrialized countries, can be an important way to increase the employment, productivity, and incomes of the poor. In addition to relieving the burden of concessional assistance, private capital can also make a significant contribution to economic stability and development by serving as a vehicle for the transfer of expertise, training, and technology.

The overriding intent of AID's private enterprise policy is to promote the establishment of a climate conducive to private sector activity in developing countries. AID's private enterprise initiative is directed at meeting President Reagan's commitment to private enterprise and the free market through the development of the indigenous private sector in developing countries and the preservation of competitive forces. AID's programs also utilize the US private sector to help achieve this objective. The long-term success of the entire private sector initiative, however, will depend on the commitment of developing countries to market economy principles and their actions in moving away from government management of the economy.

AID established the Bureau for Private Enterprise (PRE) in 1981 to improve the Agency's ability to mobilize the private sector and rely on market forces in development. PRE has been very involved with AID's field Missions, assisting over 35 Missions on more than 85 assignments by the end of 1984. Much of this assistance addresses specific problems or opportunities related to private enterprise development, including helping Missions in the concept and planning stages of projects designed to incorporate private enterprise in development efforts. Congress recently enacted into law a Revolving Fund that PRE is already using to help develop and finance many innovative private enterprise projects that will have substantial development impact in the respective host countries.

AID Missions have also made great advances in developing private enterprise projects and in promoting indigenous private enterprise development. An extensive number of such projects are being developed and implemented for countries in the Caribbean Basin, as well as in aid-recipient countries in Africa, Asia, and the Near East. In addition, many projects in agribusiness development, food and agriculture development, health, and training have private enterprise or private sector components. These projects cover areas as diverse as credit availability, pricing, training, manufacturing and facility development, export development, and promotion of nontraditional exports.

An analysis of AID's experiences with the private sector initiative clearly demonstrates that greater emphasis must be placed not only on policy dialogue with developing countries to change development strategies toward more openness and more market orientation, but also on specific direct program actions to reduce or eliminate legal, regulatory, and other constraints to private enterprise development. Experiences in private enterprise development are being examined further with respect to a range of efficiency and distributional issues that involve (1) direct channeling of assistance to the indigenous private sector, (2) private sector participation in the provision of traditional government services in developing countries, and (3) the process of privatization and/or improved efficiency of state-owned enterprises.

AID is placing increased emphasis on understanding and assisting in the process of divestment and privatization in the developing countries. Third World countries are increasingly becoming aware of the usefulness of divestment in the state-owned sector and of the value of rationalizing money-losing enterprises, at least to the point where they are market responsive. AID will continue to work with the multilateral institutions to encourage additional activities by them in this area.

Trade and export promotion projects in developing countries are becoming an increasingly important component of AID's private enterprise initiative. Export earnings received by developing countries help them to pay their import bills (for the fuel, intermediate inputs, and capital-goods imports required for economic growth); to resolve immediate and long-term balance of payments constraints; and to lay firm foundations for longer-term development.

AID's export-development projects generally have diverse objectives, such as (1) promoting a policy environment that favors export development and a greater reliance on competitive markets to meet the basic human needs of developing countries; (2) improving the private sector's institutional capability to provide needed services to exporters; (3) encouraging developing countries to lessen their dependence on a small number of export products and diversify their export base into nontraditional exports and into such activities as value-added, contract manufacturing, and assembly production; and (4) providing financial and export-promotion support services. Increased export activity in developing countries should result in stronger economies and markets, improved employment-generation possibilities (when compared with reliance on domestic markets), greater indigenous entrepreneurship, and the leveraging of a maximum flow of private finance.

#### 6.4 INSTITUTIONAL DEVELOPMENT

The growth of viable institutions, informal as well as formal and private as well as public, is essential to the success of any development effort. Managerial weakness and weak organization often constrain progress in this area. Experience in many countries and sectors has shown that it is not possible to raise productivity or provide services in a sustained way where significant institutional development has not occurred. For example, raising agricultural production hinges critically on the establishment of a series of institutions, ranging from those involved in technological development to training, extension, credit, crop insurance, and so on. Currently, insufficient development of such institutions represents a serious bottleneck to increasing agricultural production, especially in Africa.

AID has an important tradition of helping to create and strengthen institutional capacity throughout the developing world. AID will continue its current programming emphasis in favor of institution building rather than simply providing financing for ongoing project activities.

Institution-building activities include training to upgrade technical and managerial skills; technical assistance to establish or refine organizational objectives and structures, to streamline staffing procedures, and to build in appropriate incentives; capital assistance; and the provision of funds, when appropriate, to establish needed facilities and physical infrastructure.

Some of the common problems and elements of success in institutional development are as follows:

- Institutional development should be included as an aspect of all projects and should not be considered as a special activity of its own.
- Institutional development must be tailored to the needs of specific countries, sectors, and institutions. (Countries and sectors with weak institutional structures, as found in much of Sub-Saharan Africa, require a different approach than areas with a long history of effective public and private sector development.)
- Institutional development must address weaknesses in complementary institutions, because institutional deficiencies elsewhere in a given sector (e.g., agricultural extension) may well inhibit the effectiveness of particular institutional interventions (e.g., in agricultural research).

- Institutional development must encourage institutions that are flexible and that can adapt to changing local and national needs. Private sector institutions accomplish this through well-functioning markets; public institutions require effective information-handling systems, strong analytical capacities, and close linkages to client or user groups.
- Institutional development must provide for the active participation of clientele in the assessment of their needs and in the design, implementation, and evaluation of field programs. This helps to ensure that aid-supported institutions will meet their own implementation goals and be relevant to local needs.
- Institutional development must focus on providing people with increased access to essential resources and ensuring greater freedom to use these resources in rewarding ways.

Finally, private sector options for institutional development must be considered carefully. Experience has indicated that--with the exception of such areas as basic public administration, major transportation infrastructure, and certain aspects of agricultural research, public health, and education--private sector institutions are both less costly and more responsive to their clientele and are more innovative, dynamic, and efficient than public institutions.

Thus, bilateral economic assistance should encourage and support institutional development options in the private sector and should avoid activities that explicitly preempt private sector options.

Institution building makes significant demands on both donor and recipient countries. The recipient must ensure that the institutions, once established with outside assistance, eventually become self-sustaining and that they involve the broadest possible participation of all those individuals and groups essential to their success--especially the recipients of their services. On the donor side, the shift in emphasis toward institution building requires a long-term commitment. Creating and strengthening the institutional capacity of a developing country is a long-term process. Institution building cannot be halted and then restarted without major costs and inefficiencies. Development of effective institutions is heavily dependent on the availability in developing countries of trained professional personnel to guide and manage them. Accordingly, a substantial portion of AID's institutional development assistance is directed to human resource development as an essential component of this initiative.

## 6.5 TECHNOLOGY DEVELOPMENT AND TRANSFER

Experience has taught that, for dynamic economic growth, it is crucial for a country to have the indigenous capacity to develop and apply a continuing stream of innovations designed to increase productivity, employment, and incomes, and to evaluate and adapt technologies transferred from industrialized countries.

Developed countries, especially the United States, generally possess the institutional and human resources to generate major technological breakthroughs that are critical to increasing productivity and output in many fields. Although many of these technological advances can be beneficially transferred to developing countries, it is important that developing countries build an indigenous capacity to develop and adapt technology appropriate for their specific needs and conditions. Among other reasons, this is important because the technologies of the developed world are frequently too large scale or capital intensive to suit the economic environment of developing countries. Thus, there is a need for the development of appropriate technologies that optimize the use of labor--the most abundant factor of production in most developing countries. Such technologies make their greatest contribution by promoting employment while increasing efficiency and output, thus raising the income levels in developing countries.

AID's emphasis in science and technology assistance includes, as a new dimension, the expansion of research and development in all priority sectors of aid concentration--agriculture, energy, health, and population--through cooperative efforts between US and developing country scientists. These efforts are undertaken in the context of strengthening indigenous institutional capacities in developing countries.

An important common element in the successful creation, adaptation, and dissemination of technologies is reliance on market mechanisms. The United States will continue to strengthen its efforts to support indigenous producers in their creation and adaptation of suitable tools and equipment. An increase in the collaborative arrangements between the United States and developing country businesses, stimulated by conferences, trade fairs, and the like, frequently results in an increase in flows of useful technologies to developing countries. Accordingly, AID continues to consider activities that facilitate or augment private sector technology transfer and resource flows, particularly activities that perform the following roles:

- Assist businesses and other technology users to correctly assess the value of available technologies

- Support private research and development efforts that emphasize adaptation and creation of technologies suitable to Third World countries
- Spread technologies by promoting efficient subcontracting relations among small and large industrial firms
- Stimulate increased collaboration between technical organizations in the United States and their developing country counterparts

## CHAPTER 7

### US PROGRAMS TO PROMOTE DEVELOPMENT

#### 7.1 US BILATERAL ECONOMIC ASSISTANCE

US procedures for the allocation of economic and development assistance to countries and regions have been substantially revised. The goal of the new procedures is better coordination of the various assistance programs to ensure the best use of scarce assistance resources in support of US foreign policy. Key elements of the new approach include the following:

- An explicit statement of the foreign policy framework, setting forth objectives and analyzing the contribution of each foreign assistance program--military, economic, development, and food aid--to the attainment of these objectives
- Creation of an integrated budget process in which all available foreign assistance resources are allocated against the general foreign policy objectives and specific priorities in each prospective recipient country
- Interagency review and debate of prospective aid levels, including scrutiny of the overall program by the Budget Review Board and the President to ensure that resources are directed to the highest priorities of foreign policy

Within this framework, bilateral US economic assistance flows from four categories:

1. Development Assistance (DA) expands economic and social opportunities with programs in sectors that promote equitable economic growth.
2. The Economic Support Fund (ESF) promotes economic and political stability in countries or regions where the United States has significant security interests and where the United States has determined that quick impact or sizable financial commitments are useful to avert major economic or political crises and help secure peace.
3. The Public Law 480 (PL 480) Program (Food for Peace) combats hunger, encourages development, and expands markets for US farmers.

4. The Housing Guaranty (HG) program secures nonappropriated funds from US private capital markets, at close to market rates of interest, to improve housing for low-income inhabitants of borrowing countries.

The amounts obligated or requested under these budget categories in FY 1983, FY 1984, and FY 1985 are shown in Table 7-1.

Table 7-1. US Bilateral Economic Assistance Obligated  
FY 1983-1985  
(in \$ millions)

Budget Account	FY 1983 Actual	FY 1984 Actual	FY 1985 Estimated
Development Assistance (DA) (Functional Accounts plus Sahel)	1,441.4	1,468.5	1,846.3
Economic Support Fund (ESF)	<u>2,971.5</u>	<u>3,146.2</u>	<u>4,213.2</u>
Subtotal: AID	4,412.9	4,614.7	6,059.5
PL 480 Food Aid (Titles I, II, III) <sup>a</sup>	1,449.0	1,574.5	2,107.0
Total Obligated Funds	<u>5,861.9</u>	<u>6,189.2</u>	<u>8,166.5</u>
Housing Guaranty (HG) Program <sup>b</sup>	132.5	150.0	160.0

<sup>a</sup>Estimates.

<sup>b</sup>These are US Government guaranties, not obligations of appropriated funds. Estimates.

All forms of assistance are allocated in the context of their contribution to the promotion of US interests in a region or country. However, US country and regional interests are seldom singular. Assistance criteria can include any of the following factors:

- Access to raw materials important to US industry
- The possibility of destabilizing conflict
- The presence of sizable US private investment
- The relative importance of medium- as well as short-term US interests

- The character of the country's overall relations to the United States
- The country's position on human rights
- The extent of the country's efforts to acquire nuclear weapons

Additional, and equally important, criteria for the allocation of Development Assistance to a country are the following:

- The country's need, especially as measured by per capita income, the availability of food, and access to minimum health care and education services
- The country's economic progress and prospects, including its prospects for effective utilization of US assistance
- The country's economic progress and prospects
- The country's commitment to policies that promote growth

The terms of US assistance also emphasize US support of the poorer developing countries. The least developed receive nearly all assistance in the form of grants. Countries that are somewhat more developed economically, but nevertheless still poor, receive a balanced mix of concessional loans and grants. Programs that directly assist the private sector of developing countries can be provided on commercial rather than concessional terms.

Using these criteria, in FY 1984 the United States allocated to low-income (International Development Association [IDA]-eligible) developing countries 57 percent of all funds (DA and ESF) available for bilateral assistance programs that were directly allocated to country programs (see Table 7-2). Of the 36 nations on the UN "least developed" list, 27 accounted for 11.3 percent of country-allocated bilateral assistance. Regional allocations under Development Assistance, the Economic Support Fund, and PL 480 are shown in Table 7-3 for FY 1983 and FY 1984. The densely populated countries of Asia received the largest share of Development Assistance funds directly allocated by country, followed by Africa, Latin America and the Caribbean, and the Near East, in that order. The Near East, however, absorbed well over half of the Economic Support Fund in FY 1984, with the majority of that amount going to Egypt (\$853 million) and Israel (\$910 million). Of the PL 480 total, the Near East accounted for 24.1 percent and Asia for 26.4 percent.

Table 7-2. AID Functional Development Assistance (DA--includes Sahel) and Economic Support Fund (ESF) Programs, by Economic Level of Recipient Country, FY 1983 - FY 1985 (in \$ millions)

GNP Per Capita <sup>a</sup>	Fiscal Year	Total	DA	ESF
Greater Than \$806 <sup>b</sup>	1983	1,737.1	219.8	1,517.3
	1984	1,695.7	208.7	1,487.0
	1985	2,437.3	299.3	2,138.0
Between \$341 and \$805 <sup>c</sup>	1983	1,645.2	328.6	1,316.6
	1984	1,828.2	323.7	1,504.5
	1985	2,117.6	429.1	1,688.5
Between \$0 and \$340	1983	400.9	349.9	51.0
	1984	422.2	363.3	58.9
	1985	461.3	393.3	68.0
Interregional and Regional Programs	1983	620.0	543.0	77.0
	1984	640.6	572.6	68.0
	1985	942.3	702.3	240.0
Total	1983	4,403.2	1,441.3	2,961.9 <sup>a</sup>
	1984	4,586.7	1,468.3	3,188.4 <sup>a</sup>
	1985	5,958.5	1,824.0	4,134.5 <sup>a</sup>

<sup>a</sup>No GNP per capita figures were available for Lebanon. Lebanon was allocated \$9.6 million in FY 1983, \$27.8 million in FY 1984, and \$78.2 million in FY 1985 for ESF.

<sup>b</sup>This group includes Israel and Turkey. The allocation of funds to Israel was \$785 million, \$910 million, and \$1,200 million in FYs 1983, 1984, and 1985, respectively. The corresponding figures for Turkey were \$285 million, \$138 million, and \$175 million.

<sup>c</sup>This group includes Egypt. Egypt was allocated \$750 million in FY 1983, \$853 million in FY 1984, and \$815 million in FY 1985.

Table 7-3. Obligations for AID and PL 480 Programs,  
By Region, FY 1983 and FY 1984

Budget Account and Region	FY 1983 (\$ millions)	FY 1984	FY 1983 (percentage)	FY 1984
Development Assistance (functional accounts plus Sahel)				
Africa (includes Sahel Program)	315.3	340.4	21.9	23.2
Asia	392.2	392.0	27.2	26.7
Latin America and Caribbean <sup>a</sup>	328.9	295.3	22.8	20.1
Near East	43.7	51.8	3.0	3.5
Interregional	361.2	388.8	25.1	26.5
Total	1,441.3	1,468.3	100.0	100.0
Economic Support Fund				
Africa	286.1	333.1	9.6	10.6
Asia	255.8	284.2	8.6	9.0
Latin America and Caribbean	500.4	464.1	16.8	14.8
Near East	1,929.1	2,063.7	64.9	65.6
Interregional	0.1	1.1	0.0	0.0
Total	2,971.5	3,146.2	100.0	100.0
PL 480 (Food for Peace) <sup>b</sup>				
Africa	239.3	271.3	16.5	17.2
Asia	382.7	341.8	26.4	21.7
Latin America and Caribbean	269.6	240.4	18.6	15.3
Near East	348.4	360.1	24.1	22.9
Interregional <sup>c</sup>	209.0	360.9	14.4	22.9
Total	1,449.0	1,574.5	100.0	100.0
Housing Guaranty Program <sup>d</sup>				
Africa	30.0	22.0	22.6	14.7
Asia	20.0	35.0	15.1	23.3
Latin America and Caribbean	82.5	43.0	62.3	28.7
Near East	0.0	50.0	0.0	33.3
Total	132.5	150.0	100.0	100.0

<sup>a</sup>Includes \$6.3 million Sahel Program (Andean Relief) in FY 1983.

<sup>b</sup>Estimates.

<sup>c</sup>Includes Europe, World Food Programme, Emergency Reserve, stock adjustment for Title II, ocean transportation for Title I and Title II, initial payment on commodities by recipient countries under Title I, and prior year obligations financed during current year.

<sup>d</sup>Guaranties only, not appropriated funds.

### 7.1.1 Development Assistance

Development Assistance programs reflect legislation that encourages AID to broaden economic opportunity in developing countries through support of sectors that most directly promote equitable economic growth. Development Assistance programs are concentrated in countries where US assistance is needed, where there is a clear commitment to broadly based growth, and where the United States has a strong, long-term interest in development. Development Assistance programs comprise the five functional accounts described below. (Refer to Chapter 4 for more detail concerning US policy and programs in the activities funded under these accounts.)

The Agriculture, Rural Development, and Nutrition Account continues to absorb the largest portion of functional Development Assistance. The majority of the resources provided under the Sahel Development Program also are used to improve agriculture. In addition, two new initiatives are intended to enhance efforts to accelerate the pace of agricultural development: the African Economic Policy Reform Program (AEPRP) and the Central American Initiative. The objectives of this assistance are to enable countries to become self-reliant in food, to ensure food security to their populations, and to contribute to broadly based economic growth. To accomplish these objectives, three elements are emphasized:

1. Improvement of economic policies in the developing countries to remove constraints to food production, marketing, and consumption
2. Development of human resources and institutional capabilities in the developing countries and conducting research on food and agricultural problems
3. Expansion of the role of the developing country private sector in agricultural and rural development and the complementary role of the US private sector in assisting this expansion

Rapid population growth in developing countries compounds the already serious problems faced by both public and private sectors in meeting the needs and demands of their citizens for food, shelter, education, and health care. For this reason, assistance under the Population Account supports voluntary family planning programs, based on informed choice. Family planning is supported as a humane and workable alternative to abortion, which the United States does not support. US policy includes the encouragement of broader access to family planning education and services, especially in the context of maternal and child health programs. Provision of services that are acceptable within the cultural and religious context of each country is critical.

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. One-third or more of all infants die before the age of 5. Hundreds of millions of adults suffer from chronic, debilitating diseases. The basic objective of programs under the Health Account 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 AID's top priority in its health assistance efforts. Within the broad framework of PHC programs, AID is concentrating on the following activities:

- Improving the effectiveness and financial viability of basic health services
- Decreasing death and disability from infectious diseases
- Improving sanitation and the availability and quality of domestic water supplies

AID stresses private sector approaches to providing basic health care and emphasizes the need to introduce cost-recovery measures into health programs of developing countries. AID continues 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. AID also is increasing its support for technology development, adaptation, and transfer, principally through biomedical research relevant to health problems in developing countries.

All developing countries continue to have specific needs for more trained personnel. Most countries continue to struggle with the very difficult task of expanding their school systems to enable most children to obtain a basic education. Under programs in the Education and Human Resources Account, high-level manpower training and technical assistance to help countries improve the efficiency of their basic education systems are AID's two priorities. Manpower training for administrators, managers, and scientific and professional personnel has grown substantially. External training in US universities is emphasized, although 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.

The Selected Development Activities Account addresses cross-sectoral problems. Activities funded from this account play an important role in the successful implementation of AID's efforts to promote the role of the private sector in development. The multiple objectives of programs provided under this Development Assistance account include the following:

- Increasing the involvement of US-based and developing country-based private enterprise in Third World development
- Increasing employment and income-earning opportunities in developing countries by stimulating small- and medium-scale, labor-intensive private enterprise
- Increasing the flow of resources to low-income people by working more closely with US private voluntary organizations (PVOs) and cooperatives and building the capacity of indigenous PVOs and cooperatives to mount development programs
- Supporting developing country efforts to plan and carry out sound energy, natural resource, and environmental policies
- Improving the capability of developing countries to provide basic services to the urban poor and displaced persons

In addition to programs funded under the Development Assistance accounts, about 30 percent of the Economic Support Fund also is implemented in the functional areas discussed above. These funds represent an added resource for addressing the needs of the poor majority in developing countries. The balance of appropriations under the Economic Support Fund are primarily used to address the short-term economic stabilization needs of recipient countries. Table 7-4 presents allocations for FY 1983 and FY 1984 under the Development Assistance and Economic Support Fund accounts.

#### 7.1.2 Economic Support Fund

The Economic Support Fund is a flexible assistance tool for the promotion of economic or political stability in developing countries in which the United States has strong security and foreign policy interests.

Although administered by AID and the Department of State in generally the same manner as Development Assistance, Economic Support Fund resources tend to be used to address a broader range of problems. They can be used to provide immediate balance of payment support, to furnish assistance through Commodity Import Programs, to provide cash grants to finance general imports rather than specific projects, to finance infrastructure and other capital projects necessary for long-term economic development, or to support smaller projects that more directly address the basic human needs of the poor.

Table 7-4. Development Assistance, Economic Support Fund,  
and PL 480 Program Obligations, FY 1983 and FY 1984

Budget Account	FY 1983 (\$ millions)	FY 1984 (\$ millions)	FY 1983 (percentage)	FY 1984 (percentage)
Development Assistance				
Functional Accounts				
Agriculture, Rural Development, and Nutrition	725.8	723.1	37.1	33.9
Population	214.9	242.4	11.0	11.4
Health	139.5	128.2	7.1	6.0
Education and Human Resources	114.2	120.7	5.8	5.7
Selected Development Activities (energy, PVOs, science and technology)	155.0	147.5	7.9	6.9
Subtotal (functional accounts)	<u>1,349.4</u>	<u>1,361.9</u>	<u>68.9</u>	<u>63.9</u>
Sahel Development Program	92.0	106.6	4.7	5.0
Subtotal (functional accounts plus Sahel)	<u>1,441.4</u>	<u>1,468.5</u>	<u>73.6</u>	<u>68.9</u>
Other <sup>a</sup>	<u>516.7</u>	<u>665.4</u>	<u>26.4</u>	<u>31.2</u>
Total Development Assistance	1,958.1	2,133.9	100.0	100.0
Development Assistance	1,958.1	2,133.9	30.7	31.1
Economic Support Fund	2,971.5	3,146.2	46.6	45.9
Total AID	<u>4,929.6</u>	<u>5,280.1</u>	<u>77.3</u>	<u>77.0</u>
PL 480, Titles I, II, III <sup>b</sup> (Food for Peace)	<u>1,449.0</u>	<u>1,574.5</u>	<u>22.7</u>	<u>23.0</u>
Total Obligated Funds	<u>6,378.6</u>	<u>6,854.6</u>	<u>100.0</u>	<u>100.0</u>

<sup>a</sup>American Schools and Hospitals Abroad, Private Sector Revolving Fund, International Disaster Assistance, Operating Expenses, and Foreign Service Retirement Fund.

<sup>b</sup>Estimates.

The programming of Economic Support Funds is often prompted by political or security considerations, but as required by Congress, funds are directed toward basic human needs and development goals to the maximum extent possible. Even balance of payments support can have a powerful, if indirect, effect on the welfare of the poor. Countries forced to direct large percentages of their domestic expenditures to security concerns often lack the resources to support vital economic development programs. Imports of raw materials, manufacturing and agricultural inputs, and other essential needs can help to sustain the broad level of economic activity and growth and the political stability on which much employment throughout these economies depend.

For FY 1984, \$3.146 billion was obligated under the Economic Support Fund. The bulk of those funds were provided in the Middle East to support continuing efforts to further the peace process. This included a cash transfer of \$910 million to Israel to address inflation and balance of payments problems. It also included \$853 million for a cash transfer and project and commodity assistance for Egypt. The purpose of this assistance was to encourage long-term development activities while at the same time permitting the large-scale import programs necessary to maintain high growth rates and allow the Egyptian people to experience tangible benefits from the peace process.

Other important Economic Support Fund recipients in FY 1984 included Turkey (\$138.5 million), to assist its efforts to overcome serious economic problems; Pakistan (\$225 million), to bolster that nation's stability and security in the face of the Soviet threat posed through Afghanistan; the nations of southern Africa (\$78.1 million), to facilitate the peaceful transition to majority rule; the Sudan (\$120 million), to assist in resolving the serious economic crisis facing the country; the Philippines (\$50 million); and several Latin American and Caribbean nations (in particular Jamaica--\$55 million, El Salvador--\$120.2 million, Honduras--\$40 million, and Costa Rica--\$70 million). Liberia also received \$35 million to help in overall development efforts.

Many of the same themes are expected to continue in FY 1985, particularly the emphasis on Israel and Egypt, Turkey, several African and Latin American and Caribbean nations, Pakistan, and the Philippines.

### 7.1.3 Public Law 480 and Food Aid

Under the PL 480 program, the United States provides over 60 percent of the total food aid received by developing countries. In addition to combating hunger and malnutrition, the program is designed to encourage economic development, support US foreign policy goals, and expand the market for US agricultural exports. The Department of Agriculture and the Agency for International

Development share primary responsibility for administering the program. PL 480 resources are used in both bilateral and multilateral programs. Bilateral programs include the following:

- Title I provides for long-term, low-interest loans to friendly developing countries to help meet chronic or unexpected food shortages, on condition that the countries themselves undertake self-help measures to improve the efficiency of their agricultural production, marketing, and distribution.
- Title II provides for the donation of food commodities to US voluntary agencies that sponsor feeding programs targeted at the needy, particularly malnourished children, and small-scale Food for Work development programs. Also, it provides for grant food aid emergency and refugee feeding programs through US voluntary agencies or directly to the affected government.
- Title III (discussed in greater detail below) provides for multiyear commitments of food aid and the forgiveness of Title I loans to low-income developing countries, provided a specific development program is satisfactorily carried out.

The multilateral program to which PL 480 contributes is the World Food Programme (WFP), established with US encouragement by the United Nations and the Food and Agriculture Organization (FAO) in 1972. Initially, the United States contributed 50 percent of WFP resources. For calendar years 1983 and 1984, the United States pledged \$250 million worth of food and transportation costs (\$200 million financed under Title II of PL 480) toward the WFP target of \$1 billion.

#### Background

PL 480 was enacted in 1954, primarily as a means for disposing of US agricultural surpluses. In the early 1960s, PL 480-financed shipments constituted over 23 percent of the value of total US agricultural exports. This has now dwindled to less than 4 percent. In 1966, the legislation was revised to shift the emphasis from surplus disposal to assisting developing countries to improve their own agricultural production and economic performance. In general, commodities are not available for shipment under PL 480 if these shipments would reduce the amount needed for US domestic requirements, adequate carry-over of stocks, or anticipated commercial exports. However, the US national grain reserve includes 4 million metric tons of wheat,

of which 300,000 tons may be used for disaster relief in any one year regardless of US domestic supply conditions. Specific provisions of the current legislation include the following:

- A requirement that at least 75 percent of food aid provided under Title I be allocated initially to countries whose per capita income is at or below the eligibility level of IDA--\$790 in 1983.
- A requirement that 15 percent of the amount available for Title I programs be conducted under authority of Title III. Title III provides multiyear supply agreements of up to 5 years with IDA-eligible countries prepared to undertake specific actions to address the constraints to equitable development, particularly in the food and agriculture sector. The value of the PL 480 commodities or local currency sales proceeds used for agreed-on development purposes may be applied against the country's repayment obligation to the United States--that is, the United States may forgive the loan.
- Special incentives may be offered under the Title III program to the least developed countries. These include US financing of ocean freight and, in the case of land-locked countries, delivery to points of entry.
- A requirement that a minimum quantity of 1.7 million metric tons of agricultural commodities will be provided under Title II, of which not less than 1.2 million metric tons shall be for regular programs of voluntary organizations and the World Food Programme.
- Authority is provided under Title II, section 206 to use the proceeds from sales of commodities under government-to-government agreements (other than in famine or other urgent or extraordinary relief circumstances) for (1) alleviating the causes of the need for assistance, or (2) increasing the availability and the effectiveness of distribution of food provided to the neediest individuals in recipient countries.
- A requirement for a determination that adequate storage is available in recipient countries and that the distribution of PL 480 commodities will not result in a substantial disincentive to or interfere with domestic production or marketing.

### Major Developments in 1984

In FY 1984, the PL 480 program totaled approximately \$1.6 billion in value for commodities and ocean transportation costs and provided 6.7 million tons of food (including the grain equivalent of cereal-based processed food). Of this total, a grant program provided 2.2 million metric tons of food to US voluntary agencies and the WFP, to help meet regular program as well as emergency and disaster needs (including feeding of refugees), at a total cost of \$724.0 million, including ocean transportation costs. Loan commitments financed a program of 4.3 million tons of food at a total cost of \$873.0 million, including ocean transportation expenses (see Table 7-5 below). Over 85 percent of total food aid value was allocated to IDA-eligible countries with a per capita income of \$805 (in 1983) or less; \$98.0 million of the loans may be forgiven if the recipient countries carry out the specific development commitments included in Title III agreements.

The United States continues to provide assistance for refugees in Somalia and Pakistan and for victims of natural disasters and civil strife in Latin America and Asia. In addition, a major effort was made to respond to the extensive needs resulting from the major drought in Africa. The United States provided the largest amount of emergency food aid ever--505,000 metric tons valued at \$174 million dollars (including ocean freight). Two supplemental appropriations totaling \$150 million for the grant food aid program, as well as a \$175 million supplemental appropriations for the sales program, were enacted by Congress in FY 1984. Portions of these supplementals were authorized to be used in FY 1985.

The United States continues to work on long-term solutions to the food problem in Africa. Only sound economic policies can, in the long run, solve the problem of declining food production in Africa. PL 480 programs, both sales and grant, whether regular or emergency programs, will be negotiated through policy dialogue whenever possible. Multiyear programming will continue to play a key role in conducting policy dialogue.

### Food Aid Convention

The International Food Aid Convention came into force on July 1, 1980. Its objective is to receive commitments, through a joint effort by the international community, to meet the World Food Conference target of pledging at least 10 million tons of cereal food aid annually to developing countries. Under the Convention, commitments total about 7.6 million tons compared to

Table 7-5. PL 480 Commitments, FY 1984

	Title II		Title I/III		Total	
	Tons <sup>a</sup> (millions)	\$ (millions)	Tons <sup>a</sup> (millions)	\$ (millions)	Tons <sup>a</sup> (millions)	\$ (millions)
Commodities	2.2	506.0	4.5	803.5 <sup>b</sup>	6.7	1,309.5 <sup>b</sup>
Amount Subject to Loan Forgiveness	--	--	(0.5)	(98.0)	(0.5)	(98.0)
Ocean Freight	--	<u>218.0</u>	--	<u>69.5<sup>c</sup></u>	--	<u>287.5</u>
Total	2.2	724.0	4.5	873.0 <sup>b</sup>	6.7	1,597.0 <sup>b</sup>

<sup>a</sup>Including grain equivalent of cereal-based processed food.

<sup>b</sup>Includes \$22.5 million initial payments received from Title I sales program recipients.

<sup>c</sup>For the Title I/III programs, ocean transportation costs were financed by recipient countries, except that the United States absorbed the cost of the differential, if any, resulting from the requirement that 50 percent of the cargo be shipped in US flag vessels.

4.2 million tons previously. The US commitment, which is fulfilled through PL 480 shipments, is 4.47 million tons, an increase of 136 percent over the previous US pledge of 1.89 million tons. The Food Aid Committee of the Food Aid Convention may recommend that members voluntarily increase their contributions to cover emergency needs if a substantial number of low-income countries suffer a sharp shortfall in production.

#### Prospects for the Near Term

The FY 1986 PL 480 funding level is only slightly higher than the fiscal year 1985 request. The United States is seeking supplemental 1985 appropriations from Congress for expenditure in FY 1985/86 to enable a continued US response to the food crisis in Africa.

The United States is seeking, where appropriate, greater participation of the recipient country in the programming of local currencies generated under Title I sales agreements. Effective use of these currencies in consort with other aid resources can help achieve US development goals in recipient countries. Opportunities for programming exist in all aspects of US development work, including possibilities for greater involvement of the private sector.

#### 7.1.4 Board for International Food and Agricultural Development

Title XII of the Foreign Assistance Act directs AID to make more extensive use of US land grant, sea grant, and other qualified colleges and universities to carry out foreign assistance programs. The interest of developing countries in Title XII projects, as reflected in AID Mission requests, has grown continuously, and in both FY 1985 and FY 1986, it is expected that Title XII programs will account for approximately \$400 million in institution-building activities in agriculture, rural development, and nutrition.

In 1975 Congress created the Board for International Food and Agricultural Development (BIFAD) to advise AID officials and to participate in the formulation of agricultural development policy, the design of projects, and the use of US agricultural universities in AID programs. The legislation also provided for "Strengthening Programs" to enhance US university capacities for participating in AID programs overseas, and for "Collaborative Research Support Programs" to enable US institutions and those in developing countries to work together on projects to benefit both the developing countries and US agriculture. BIFAD helped to launch these programs by developing guidelines and by providing for university participation in program reviews. BIFAD also fostered university collaboration in the design and implementation of country projects.

BIFAD's current agenda is governed by a Joint Resolution signed in April 1981 by AID Administrator M. Peter McPherson and then-BIFAD Chairman Clifton R. Wharton, Jr. It defines the primary mission of BIFAD as follows:

to help AID to mobilize and utilize the faculty and institutional resources of eligible universities, and to advise and assist AID to develop and implement the components of the Title XII program.

In pursuit of this mission, BIFAD devotes a major share of its staff resources to identifying the most qualified individuals and university contractors required to meet AID project needs. Although AID decides on the selection of university contractors, BIFAD staff have played a crucial role by finding qualified bidders for less attractive projects, mitigating problems between AID and potential contractors, and offering advice.

The basic purposes of the AID-BIFAD partnership are to increase, to broaden, and to improve the participation of US universities in AID international development programs. Activities undertaken to achieve each of the goals are described below.

To increase university involvement:

- Regional Title XII Seminars provide AID and more than 50 universities with an annual opportunity to exchange perspectives about AID policies and programs, modes for university involvement, and problems that arise from working together.
- BIFAD's Registry of Institutional Resources maintains information on international capabilities of US universities.
- Memoranda of Understanding (MOUs) commit AID and individual universities to dependable, longer term relationships.
- The Joint Career Corps provides for assignments of university faculty to AID Missions, alternating with periods at their home campuses.
- Technical Support to Mission programs provide university expertise to analyze country needs or to develop, design, and evaluate projects.
- BIFAD shared a study of incentives for university involvement, along with an analysis of progress made and outstanding problems, with the 140 Title XII universities.

- BIFAD plans a workshop on writing proposals for contracts.
- The National Association of State University and Land Grant Colleges has called the attention of its member institutions to university policies most conducive to increased faculty participation in international activities.
- The American Association of State Colleges and Universities joined BIFAD in sponsoring a study of the potential of non-land-grant institutions for involvement in Title XII projects.

To broaden university participation:

- The contractor selection process for individual university projects--the subject of a comprehensive BIFAD study--ensures equitable treatment and understanding on the part of all parties.
- Joint MOUs formalize cooperative relationships between AID and combinations of 1890 and 1862 land grant schools.
- The Joint Enterprise method of university contracting provides for the inclusion of smaller institutions in project implementation.

To improve university contributions to development programs:

- BIFAD has been undertaking a number of special activities to improve the preparation of university faculty for service overseas. These include a workshop for the university trainers who provide orientation, and follow-up activities in language training and institution building.
- AID and BIFAD are collaborating on an improved evaluation process for Title XII projects and on an impact evaluation of Title XII.
- BIFAD plans to review evaluation results to assess what workshops might help to improve performance.
- BIFAD organized reviews to find ways of strengthening current programs and is assessing lessons learned.
- BIFAD reviews selected projects at its meetings and through on-site visits.

BIFAD, together with its Joint Committee on Agricultural Research and Development, also performs the following functions:

- Advises on agricultural and rural development policies, allocation of funds, and Title XII program development and implementation
- Carries out a Development Education Strategy for increasing public awareness of the benefits to the United States of development assistance
- Works with Historically Black Colleges and Universities to enhance their involvement in AID programs in agriculture, rural development, and nutrition
- Fosters complementary relationships between programs of the international agricultural research centers and those of AID and US universities
- Assists in the development of improved policies and programs in training and institution building
- Stimulates the development of new relationships among private enterprise, the universities, and AID for cooperation in international agricultural development, and assists in devising new instruments for that purpose.

#### 7.1.5 Other Major AID Activities

In addition to the major programs described above, AID continues to emphasize certain activities that are known to be of special importance to development progress.

#### Women in Development

It is AID policy to give particular attention to those programs, projects, and activities that tend to integrate women into the economics of developing countries and that will increase their economic productivity and income-earning capacity. AID is working to institutionalize the ability of AID personnel to address women's needs and talents from the outset of project design through completion of the evaluation of project effectiveness.

AID recognizes that gender distinctions constitute a key variable in any economic development program. The disaggregation of data by sex must be included in all critical Agency development documents. Guidance to AID field Missions has mandated the inclusion of women's roles in project designs and policy documents. AID has played a major role in ensuring that concerns dealing with women in development are addressed by the international donor community (Organization for Economic Cooperation

and Development/Development Assistance Committee--OECD/DAC). AID also is involved with the UN Decade for Women Conference in Nairobi, July 1985, to ensure that these concerns are addressed substantially during the Conference's planning for the future. As a bridge between Agency policy and the goal of institutionalizing concerns for women in development Agencywide, the AID Office of Women in Development (WID) has instituted projects in gender-disaggregated data collection, technical assistance, training, and research. A few examples of the wide range of AID WID programs illustrate this bridging process.

To enhance gender-disaggregated data collection, the US Bureau of the Census is producing demographic data on 120 countries in the developing world. The result of this project will be four regional handbooks, to be titled Women of the World, which will compile the most recent gender-disaggregated data by country and sector for the developing world. These handbooks are designed for use by development practitioners and planners, both in developing countries and in multilateral and bilateral assistance programs. A computer tape containing all the data in the WID data base will be made available to the public. Future comparison with this baseline set of figures will document the impact that AID programs are having on women.

The Harvard Institute for International Development has conducted three workshops to increase staff expertise on concerns relating to women in development.

A project with the Overseas Education Fund provides for training and technical assistance to local development organizations to enable them to design more effective programs for addressing the socioeconomic conditions of women in developing countries. The project includes assessments of a country's needs and of the organizations to be targeted, development of training materials, delivery of training, and follow-up to the training.

AID continues to support activities relating to women at Title XII universities and at regional consortia such as the Midwest Universities Consortium for International Activities, the Southeast Consortium for International Development, and the Consortium for International Development. These activities also have established the basis for a cooperative WID-BIFAD effort to integrate women into research projects, to develop research agenda in this area, and to utilize expertise concerning women in development in the Title XII development assistance programs.

### Human Rights

Human rights are at the core of the American experience. This nation was created in response to a specific political program defined by conceptions of human liberty. A central aim

of US foreign policy is to promote American ideals and respect for human rights throughout the world. AID supports unequivocally this policy by ensuring that human rights have an integral part in the overall AID program. More specifically, AID activities reflect the US understanding that civil and political rights cannot be separated from economic policies and economic development.

Section 116(e) of the Foreign Assistance Act directs AID to carry out programs and activities that will enhance adherence to civil and political rights. Such activities are appropriate for a development organization, because the United States recognizes that the engine of economic growth is personal liberty. Throughout the world, societies that protect civil and political rights are far more likely to experience economic development than societies that do not. The legislation authorizes the expenditure of not less than \$3 million for each fiscal year "for studies to identify, and for openly carrying out, programs and activities which will encourage or promote increased adherence to civil and political rights...." None of these funds may be used directly or indirectly to influence the outcome of any election in any country.

Under this section of the Foreign Assistance Act, AID supports specific projects covering one or more of the following themes: (1) research and discussion of civil and political rights, (2) the awareness of civil and political rights, (3) adherence to the rule of law through a legal framework conducive to civil and political rights, (4) free and democratic electoral systems, (5) development of democratic principles and institutions that promote human rights, (6) development of human rights organizations, and (7) increased access of women and ethnic groups to the judicial system and the political processes.

Specific human rights activities underway in FY 1985 that will continue in FY 1986 include the following:

- A training program for judges, conducted by a UN agency, emphasizing procedural due process issues to balance the social goals of prompt justice and protection of individual rights
- Assistance in election preparation and support for regional organizations such as the Inter-American Center for Electoral Assistance and Promotion to develop activities that encourage governments to hold free and fair elections
- Support for legal education and human rights literacy programs for community leaders, law students, the general public, and disadvantaged groups

- Sponsorship, jointly with the Asia Foundation, of a Human Rights Institute in the Philippines, which will conduct programs of public service and legal education
- Continuation of the South African Human Rights Program, which supports activities that promote a just society and that assist victims of discrimination, in ways that will make a long-term contribution to the peaceful evolution of South Africa toward a free, open, and democratic society (funding was increased from \$500,000 in FY 1984 to \$1 million in FY 1985)

#### Private Voluntary Organizatons

US private voluntary organizations (PVOs) have been active in humanitarian work overseas for more than a century. In the years since World War II, however, their activities have been extended beyond relief, disaster assistance, and food distribution into intensive efforts directed toward alleviating the causes of poverty and improving the quality of human life in the Third World.

The steadily growing cooperation between US Government agencies and private voluntary organizations reflects the US Government's belief that the programs of those agencies embody the traditional humanitarian ideals of the American people and support principal foreign policy objectives of the United States. Among these is an emphasis on assisting people in developing countries to develop and apply their own skills and capabilities to address their development problems and to support the growth of democratic institutions that will enhance their participation in these development efforts. AID is committed to pursuing jointly with PVOs international programs in disaster relief; food distribution; operation of overseas schools and hospitals; and development assistance in small housing development, primary health care, rural technology, nonformal education, and skills transfer programs.

In FY 1984, AID continued its active support for and collaboration with PVOs. In addition to encouraging the active role of several of the larger PVOs in the distribution of PL 480 Title II food commodities, AID has committed over \$250 million in grants and contracts to PVOs, including several family planning organizations, labor institutions, cooperatives, and some 70 voluntary agencies whose field programs coincide with AID's overall priorities.

AID expects to continue its active support for those private voluntary programs that promise effective development results and that leverage financial and technical resources from the American private sector.

## Refugee Assistance

Refugees are defined as people who have fled their countries because of fear of persecution for reasons of race, religion, nationality, membership in a particular social group, or political opinion. Those who have migrated from one place to another within the borders of their own countries for the same reasons are known as "displaced persons." The following narrative summarizes US Government activities in support of both of these groups; however, the majority of US assistance in this area is directed toward refugees.

Major US policy goals for refugee programs include the following:

- Continue to assert a leading role in the international community to energize the UN system to coordinate the response of the international community to refugee problems
- Ensure that measures are taken to increase the operational effectiveness of international organizations responsible for refugee-related matters
- Promote greater burden-sharing among donor nations for refugee assistance
- Take actions to preclude new refugee flows and to promote solutions of a lasting nature that minimize the need to resettle refugees in the United States
- Admit refugees to the United States where other solutions are not available
- Ensure that refugees admitted to the United States receive proper prearrival language and cultural orientation training, and monitor reception and placement services to promote efforts toward refugee self-sufficiency

The worldwide refugee situation remained volatile over the past year, and presented some major new crises. Some of the past year's developments, including major accomplishments, are outlined below.

Africa. The drought and ensuing famine in Africa have spurred massive new movements of people across national borders, significantly increasing the number of refugees on the continent, straining the capacity of international relief mechanisms, and worsening the situation of established refugee populations in most African host countries. The number of African refugees in 21 African countries has grown from 2 million to 2.5 million since mid-1984.

A critical situation has developed in Sudan where new arrivals of Ethiopians fleeing fighting in Tigray and Eritrea and drought-induced famine conditions have strained the fragile infrastructure in the east and overwhelmed the resources in place for refugee relief. Arrival rates from Ethiopia have now risen to an average of 3,000 a day. Since September 1984, new arrivals, who number over 250,000 combined with previously self-reliant refugees, have brought the population requiring UN High Commissioner for Refugees (UNHCR) assistance to over 350,000. Another 250,000 to 300,000 new arrivals are expected by July 1. In addition, civil unrest and drought in Chad have driven tens of thousands of Chadians into western Sudan, where the new arrivals are being assisted along with drought-affected Sudanese.

In response to the Sudanese emergency, the US Government has acted simultaneously to provide emergency relief expeditiously and effectively and to motivate the UN system to provide leadership in the international community.

Between December 1984 and March 1985, the United States contributed to UNHCR about \$3 million in in-kind relief supplies and Sudanese pounds for local purchase of food and fuel. The United States also fielded an assessment team comprised of medical, disaster, and water experts that has guided UNHCR toward coping with the situation and has instituted improvements in the health, water, food, fuel, and logistics sectors. With regard to food needs, thus far in FY 1985 the United States has approved about \$70 million worth of commodities for Sudanese drought victims and Chadian and Ethiopian refugees.

In addition to \$39.83 million that was pledged in November toward UNHCR's Africa programs, the United States recently contributed \$6.0 million in cash for its emergency operations in Africa. This cash assistance, coupled with US bilateral food assistance, brings US response to UNHCR emergency appeals to more than \$19.0 million. These address the needs of Ethiopian and Chadian refugees in Sudan, Chadian refugees in the Central African Republic, returnees from Somalia and Djibouti to Ethiopia, and Ethiopian refugees in Somalia.

US support of the International Committee of the Red Cross (ICRC) Africa program has averaged about 25 percent of ICRC's budget. The State Department Bureau for Refugee programs has just approved \$12 million in addition to the previous pledge of \$6.5 million for ICRC's 1985 Africa program. Much of the expansion in ICRC's program is related to the combined effects of drought and conflict.

Even in the current emergency, it is necessary to plan for follow-on programs to promote lasting solutions for African refugees. In many cases, longer term refugee needs will parallel those of other African drought victims. Last year, the US

Government sent a high-level delegation headed by Attorney General Smith to the Second International Conference on Assistance to Refugees in Africa (ICARA II). ICARA II focused world attention on the need to coordinate refugee assistance with development planning for African host countries, to achieve greater long-term self-sufficiency of refugee communities, and to relieve the burden that refugees place on the social and economic infrastructure of host countries. The United States, which already funds several development-related refugee projects, supports international efforts that may in the future mitigate the effects of natural disasters on refugees and resident citizens.

Afghan Relief. The registered population of between 2 and 3 million refugees appears to have generally stabilized, although further intensive Soviet military actions across the border could cause another large influx of needy Afghans into Pakistan in the future. The now-evident long-term residence of such a large population will continue to generate substantial costs for the Government of Pakistan. Assistance is being provided to address longer range refugee education and income-generation needs as well as for programs to repair ecological damage in Pakistan.

Near East. The continuing strife in Lebanon generated new requirements for relief for refugees and displaced persons. The US Government channels and manages contributions to the United Nations Relief and Works Agency for Palestine Refugees in the Near East, which includes affected refugees in Lebanon.

Latin America. The number of refugees and displaced persons in the region continues to grow at a steady rate and so have the programs designed to assist them. Substantial US support was given to international organization activities in these areas.

Southeast Asia. The United States and other donors support the efforts of the UNHCR and private voluntary agencies to provide care and maintenance for more than 180,000 Indochinese in the first asylum camps of Southeast Asia. Additional assistance is provided to the United Nations Border Relief Operation for relief efforts on behalf of the 250,000 displaced Khmer along the Thai-Cambodia border. Thai villagers affected by the refugee influx and fighting are assisted through a \$5 million Economic Support Fund program administered by AID in Thailand.

#### Housing Guaranty Program

The Housing Guaranty program was developed in the early 1970s as part of the US foreign assistance program to respond to the enormous and rapidly mounting worldwide shortage of adequate shelter, particularly in urban areas of developing countries. The program is AID's principal instrument for helping

developing nations address this problem. It is a unique activity in which funds from the US private sector provide long-term financing for low-income shelter and urban upgrading in developing countries. The US Government underwrites these transactions through a full guaranty that compensates US lenders in the event of losses, such as from defaults. Interest rates to lenders are established by AID and reflect the current cost of money in the US mortgage market. AID charges a fee for its guaranty.

The objectives of the Housing Guaranty Programs in the developing countries are as follows:

- To assist developing countries in the development and implementation of projects designed to demonstrate the feasibility and desirability of realistic, affordable, unsubsidized shelter within the financial ability of people earning less than a median income
- To assist in the creation, development, and strengthening of housing and financing institutions, with an appropriate division of responsibility between the public and private sectors
- To develop and strengthen the institutional and management capabilities of developing countries in responding to shelter and community services needs of the poor majority of its people
- To encourage the use of capital-saving technologies, labor-intensive methods, and community participation to provide shelter and community facilities through utilization of resources from the Housing Guaranty Program and reliance on the private sector, through self-help activities and local contractors, for the bulk of construction activities

The Housing Guaranty Program finances the following kinds of shelter solutions for families with below median-level incomes:

- Slum and squatter settlement upgrading, including provision of potable water, sewage disposal systems, electricity, roads, and drainage. This is complemented by home-improvement and land-tenure loans to slum dwellers.
- Sites and services assistance, including preparation of vacant land for productive shelter use through lot division and construction of water lines, sewage disposal systems, roads, and drainage. This is followed by self-help home construction by low-income buyers of the lots. This type of project may include training programs and building materials loans for self-help builders and small-scale contractors.

- Core housing, involving basically a sites and services approach, with the addition of a rudimentary housing shell (typically including a bathroom and a small multi-purpose living area) on each lot designed to be improved and expanded by the owner. Building materials loans may be provided.
- Low-cost housing units.
- Community facilities and services (schools, health clinics, markets, job-skill training services, etc.). These are provided in support of shelter projects.

Projects are designed to assist the participating institutions to define and clarify national housing policies and to strengthen their capacity to plan, finance, implement, and service housing projects for the poor. Self-sufficient programs emphasizing cost recovery and limited subsidies are featured.

The Housing Guaranty Program is administered by AID's Office of Housing and Urban Development in the Bureau for Private Enterprise, which also provides technical assistance and services for a broad range of shelter- and urban-related issues relevant to many developing nations. (By the end of FY 1983, the Housing Guaranty Program authorizations reached a level of approximately 1.8 billion.) Projects will continue to provide (1) low-cost shelter and related urban services to low-income families, primarily in urban areas of developing countries; (2) housing policy advice to governments of developing countries; and (3) technical assistance for institution building and for assisting countries in preparing medium- to long-term shelter and urban development plans.

### Evaluation

AID has long recognized the important role of evaluation in developing and managing its activities and in assessing lessons learned from past projects that can help to guide future assistance efforts. The United States continues to endorse donor attention to evaluation and participates actively in the work of the DAC Expert Group on Evaluation. In addition, AID is encouraging developing countries to use evaluations as a tool in effective project design and implementation and as an element of improved institutional capacity to manage development activities.

In AID, the evaluation function is driven by the information needs of planners and managers of the assistance programs. The focus on utilization encourages evaluators to be responsive to short-term operational requirements and to ensure that longer term planning and policy formulation benefit from accumulated knowledge and experience. Recent trends in US evaluation efforts reflect bilateral assistance emphases:

- In response to its growing level of nonproject assistance, AID has extended the scope of evaluation to include criteria and techniques for evaluating specific types of nonproject activities.
- Evaluations are being designed to cut across traditional evaluation categories and topics, such as recurrent cost implications, alternative implementation approaches and their comparative cost-effectiveness, project impact on the role of women in development, and the contribution of aid to the development of effective local institutions in the private and public sectors.
- The role of evaluation is being extended in comprehensive planning processes beyond the level of specific project and nonproject activities. This has entailed the greater use of evaluation findings and lessons in the preparation of long-term AID country development strategies and has resulted in clearer statements of development strategy benchmarks against which results can be measured.
- A formalized linkage between evaluation and policy formulation is being established. During the past 2 years, a new series of AID policy papers drew on evaluated experience, including the cumulative findings of the Agency's "impact" evaluations.
- Evaluation work is being planned with greater attention to the timing of key decision points in the program and project cycle, in an effort to provide evaluative information at the time that it will be most useful.
- Innovative evaluation methods are being applied for assessing interim impacts while a project or program is still being carried out.

The synthesis of evaluation findings and lessons learned is particularly important for policymakers, planners, and project designers as one basis for comparing and selecting alternatives. AID's evaluation staff emphasizes the analysis, synthesis, and dissemination of experience in selected development topics. Partly to support this effort, AID combined its central evaluation, information, and statistical offices into a single unit, the Center for Development Information and Evaluation. Concurrent with this effort, AID is vigorously applying existing requirements that call for consideration of evaluation findings and lessons in project and program design so as to establish in the designs themselves a firm basis for future monitoring and evaluation.

## 7.2 OVERSEAS PRIVATE INVESTMENT CORPORATION

### 7.2.1 Purpose

The Overseas Private Investment Corporation (OPIC) is a self-sustaining US Government agency created to mobilize and facilitate the participation of US private capital and skills in the development process. OPIC programs are aimed at increasing the flow of US investment to developing countries, thereby transferring needed technology and managerial skills and contributing to economic growth, employment, and private sector development in those countries. These developmental benefits are not accomplished at the expense of US economic interests, however. On the contrary, the returns from OPIC-assisted foreign investment and related US exports have a positive net effect on the long-term US balance of payments.

### 7.2.2 OPIC Programs

To fulfill its mandate, OPIC operates several major programs: political risk insurance, financial services, and special investment encouragement programs. By providing insurance coverage against the inconvertibility of currencies; loss due to expropriation; and damage caused by war, revolution, or insurrection and civil strife, OPIC reduces the probability of catastrophic losses to US investors. The availability of such insurance is frequently a prerequisite to investment in a developing country by a US firm. OPIC's Direct Loan and Loan Guaranty programs serve to complement conventional sources of financing by providing long-term loans for commercially and financially sound overseas investments. Under its investment encouragement program, OPIC (1) finances feasibility studies, (2) conducts investment missions that bring US investors in touch with host country government officials and potential joint-venture partners, (3) operates a computerized data bank of joint-venture opportunities and partners, and (4) provides investor information services and training assistance.

In recent years, OPIC has undertaken to insure categories of investments in addition to direct equity investments. OPIC's program for letter-of-credit guaranty insurance protects US contractors and exporters against the risk of arbitrary drawdowns of the letters of credit they may be required to post as bid, performance, or advance payment bonds. OPIC also offers specialized insurance and financial services for the exploration, development, and production stages of energy and mining projects as part of an effort to help meet the world's demand for natural resources while generating income for development countries. Most recently, to encourage developmentally beneficial transfers of US technology and capital equipment, OPIC has begun to insure and

finance cross-border operating and capital leases contracted for a minimum of 36 months.

### 7.2.3 Highlights of FY 1984

In FY 1984, OPIC insured or financed 140 projects involving an aggregate total investment of approximately \$2.6 billion. It is significant that 59 of these projects are located in the poorest developing countries. During the first 5 years of operations, these projects are expected to generate 17,450 jobs, 16 percent of which will be in managerial or professional positions. The average annual net income from taxes and duties paid to host countries will amount to \$112 million during the same period. Most investments supported by OPIC in 1984 took place in Latin America and the Caribbean (62 projects), followed by East Asia (41 projects), the Near East (13), South Asia (10), Europe (8), and Africa (6).

Also in 1984, OPIC approved funding for a record 35 feasibility studies and conducted investment missions to Turkey, Indonesia, Grenada, and Costa Rica. Under its special projects authority, OPIC supported a creative array of development projects designed to facilitate US investment abroad. Most notably, OPIC provided a 3-year, \$450,000 grant to the Booker T. Washington Foundation to identify investment opportunities and joint-venture partners in West Africa and to encourage and assist US small and minority enterprise investment in the region.

### 7.2.4 Effects on Trade

Investments assisted by OPIC in 1984 are expected to generate \$518 million in host country exports and replace an average of \$311 million in imports annually. After offsetting these figures by annual production-related imports of \$292 million and capital outflows of \$194 million, the net effect is \$343 million in host country foreign exchange savings per year. OPIC-supported projects also provided substantial economic benefits for the United States as well, by expanding markets, increasing exports, creating new jobs, opening access to new resources, and contributing positively to the US balance of payments. The projects supported in FY 1984 will generate \$2.0 billion in US exports over a 5-year period. It is estimated that this growth in exports will require an additional 16,084 person-years of US employment. Clearly, foreign investment supported by OPIC produces benefits for both home and host countries.

OPIC plays a unique role in introducing US investors, particularly small investors, to business opportunities in developing countries. The capital, skills, and business expertise thereby transferred play a highly useful role in the economic growth of

the developing world. OPIC looks forward to continuing to provide a broad array of services to encourage US investment abroad and to further the development process.

### 7.3 PEACE CORPS

#### 7.3.1 The Role of the Peace Corps in FY 1984

The Peace Corps' mission is to promote world peace and friendship by assigning volunteers to interested countries to help them meet their needs for trained personnel, particularly in the area of basic human needs; by promoting a better understanding of Americans among the people served; and by promoting a better understanding of people of other countries among the American people.

Peace Corps programs are consistent with, and supportive of, US development policy, while providing a continuing focus within the development community on grass-roots development programs and on strategies that emphasize human development and self-reliance. During 1984, the person-to-person, grass-roots approach, which has been Peace Corps' hallmark for 23 years, provided increased opportunities for collaboration with AID and a variety of private voluntary organizations.

While approximately 5,500 Americans served with the Peace Corps in 1984, over 2,700 men and women entered service. Most of those who were in service were assigned to work in one of the 59 developing countries with which the Peace Corps has formal bilateral agreements. A few of these Volunteers were serving in other countries, either through the United Nations Volunteer Programme, or through an agreement with a PVO.

The Peace Corps budget for 1984 totaled \$117 million (including \$2 million in a supplemental appropriation). In addition, host countries continued to show their appreciation for the work of the Volunteers by making substantial cash and in-kind contributions to in-country operations. The single greatest area of expenditure continued to be the direct support and training of Volunteers overseas. The costs incurred in recruiting those Volunteers and in providing them with overseas staff support constituted the two other major expenditures. Three-quarters of all Peace Corps staff were stationed overseas; two-thirds of these were host country nationals.

Volunteers performed numerous tasks while serving in a wide variety of projects, each tailored to local needs. While summary statistics cannot adequately reflect that diversity, they do provide an overview of the Peace Corps' field activities, particularly as they relate to the Volunteers' primary assignments.

In 1984, Peace Corps Volunteers were assigned to projects in the following program sectors:

Education	27%	Fisheries	8%
Agriculture	23%	Forestry/Natural Resources	8%
Health/Nutrition	17%	Renewable Energy	5%
Small Enterprise Development	9%	Water/Sanitation	3%

The following countries continued to host Peace Corps Volunteers:

Africa Region:

Benin, Botswana, Burkina Faso, Burundi, Cameroon, Central African Republic, Gabon, The Gambia, Ghana, Kenya, Lesotho, Liberia, Malawi, Mali, Mauritania, Niger, Rwanda, Senegal, Seychelles, Sierra Leone, Swaziland, Tanzania, Togo, and Zaire

Inter-American Region:

Anguilla, Antigua/Barbuda, Barbados, Belize, Costa Rica, Dominica, Dominican Republic, Ecuador, Grenada, Guatemala, Haiti, Honduras, Jamaica, Montserrat, Paraguay, St. Christopher/Nevis, St. Lucia, and St. Vincent/ The Grenadines

North Africa, Near East, Asia, and Pacific:

Cook Islands, Fiji, Kiribati, Micronesia, Morocco, Nepal, Papua New Guinea, Philippines, Solomon Islands, Sri Lanka, Thailand, Tonga, Tunisia, Tuvalu, Western Samoa, and Yemen

7.3.2 Major Activities

The projects and activities described below are among those in which the Peace Corps played a significant role during FY 1984.

Caribbean Basin Initiative

The Peace Corps' activities under the Caribbean Basin Initiative have been directed toward small- and medium-scale agribusiness development. Volunteers were involved in performing

a substantial number of feasibility assessments, conducting seminars in agribusiness, and providing technical assistance in agribusiness development. Studies have shown that for every \$1 spent on training and technical assistance, the Peace Corps agribusiness project has generated \$12 in capital investment and a projected \$3 in net annual return on investments.

#### Small Enterprise Development

Although the Peace Corps' Small Enterprise Development program has been in existence only since the summer of 1983, the Agency has been working on income-generating projects in developing countries since its own inception. In addition to providing existing projects with technical backstopping, in 1984 the Peace Corps reviewed all income-generating programs since 1970 and developed in-depth case studies of projects in Cameroon, the Philippines, and Ecuador.

#### Africa Food Systems Initiative

During the latter part of FY 1984, the Peace Corps developed and proposed to the AID-Peace Corps Coordinating Committee a major new long-term integrated agriculture program targeted at up to 12 African countries. Although initial plans for this program were developed in FY 1984, project development will continue through FY 1985 and implementation will begin in mid-FY 1986 with the assignment of volunteers in up to four pilot countries. AID will play a major role in project development with the intention of maximizing appropriate Peace Corps-AID collaboration during implementation.

#### Collaboration With Private Voluntary Organizations

In 1982, the Peace Corps embarked on a strategy to expand its relationships with PVOs. This has included both the expansion of existing relationships as well as efforts to reach out to other PVOs to develop new collaborative arrangements.

- In FY 1984, the Peace Corps signed Memoranda of Understanding with eight PVOs, including the Pan-American Development Foundation, Goodwill Industries, the League for International Food Education, Volunteers in Overseas Cooperatives Assistance, and Sister Cities International.
- The Peace Corps assigned Volunteers to a Sudanese renewable energy project under a formal agreement with the Georgia Institute of Technology (without the need for a formal bilateral country agreement between the Peace Corps and the Government of Sudan).

## Collaboration with the Agency for International Development

Cooperation between the Peace Corps and AID continues to expand, both in the field and at the interagency level. For the Peace Corps, this has meant a significant increase in its ability to target specific programs by fielding greater numbers of Volunteers and/or by providing those Volunteers with increased levels of technical support. FY 1984 marked the establishment of an AID-Peace Corps Coordinating Committee, co-chaired by Loret Ruppe, Peace Corps Director, and M. Peter McPherson, AID Administrator.

The following Participating Agency Service Agreements (PASAs) with AID were in effect during FY 1984:

- Energy. The Peace Corps' first PASA with AID came to a close in FY 1984. This PASA allowed the Peace Corps to provide Volunteers with preservice training and on-site technical assistance in a variety of renewable energy technologies.
- Forestry. A joint AID/Peace Corps Forest Resources Management Initiative was established in 1980 and projected through 1988. This initiative is delivering village-level forestry assistance while assessing opportunities for collaboration under the Food for Work PL 480 initiative. In 1984, several technical, multi-country, agroforestry in-service training workshops for Peace Corps Volunteers and their counterparts were held for over 150 participants. In addition, eight PL 480 African country assessments were conducted to develop pilot projects for 1985.
- Combating Childhood Communicable Diseases (CCCD). The CCCD program supports Volunteers assigned to Sub-Saharan African countries to work at national and village levels in programs designed to lower the high morbidity and mortality levels in children up to the age of 5 years. The program focuses on the reduction of six vaccine-preventable childhood communicable diseases, and the incidence of death due to dehydration and malaria.
- Oral Rehydration Therapy (ORT). The Peace Corps ORT agreement with AID, signed in FY 1984, provides for programming consultation, technical assistance, and in-service training for Volunteers and their counterparts, as well as technical workshops for Peace Corps staff, ministry officials, and representatives of other organizations in the broad program areas of nutrition, sanitation, and health education related to ORT methodologies. ORT assistance was provided to the Dominican Republic, Haiti, Jamaica, Nepal, and the Philippines.

- Nutrition. The 1984 Peace Corps Nutrition agreement with AID supports training activities in the area of vegetable gardening for nutrition improvement. In-service training pilot projects sponsored under this agreement were held in Honduras, Western Samoa, and Ecuador.
- Small Projects Assistance (SPA) Program. The SPA program jointly established by the Peace Corps and AID has been in operation for over 2 years. The program funds small development activity projects identified by Volunteers working with local community organizations in 34 countries. It has greatly enhanced the Peace Corps' ability to promote self-reliant development activities at the local level, particularly in food production, energy, and small-enterprise development.
- Technical Assistance. Resources to provide technical assistance to Volunteers participating in the SPA program at the local level have also been made available to the Peace Corps. The Technical Assistance PASA allows the Peace Corps to provide assistance in training; program development; and on-site technical backstopping in food production, energy, and small-enterprise development.

#### United Nations Volunteer Programme

As the sponsoring agency for all US citizens applying to the United Nations Volunteer (UNV) program, the Peace Corps, by the end of FY 1984, was sponsoring 39 such Volunteers, 19 of whom were serving in countries with no Peace Corps bilateral program. The Chinese Government, in particular, has been receptive to American UNVs, inviting more volunteers from the United States than any other country to date. There are currently seven Peace Corps-sponsored UNVs in China serving as English teachers.

#### Information Collection and Exchange

For almost 10 years, the Peace Corps has been publishing a series of technical-instruction manuals based on the work of its Volunteers. These manuals include not only information on the technical material generated by the Volunteers and their counterparts in the field, but programming and training methodologies as well. Although these manuals were originally published for internal Peace Corps use, 1984 witnessed a dramatic increase in the demand for these materials from PVOs, ministries in the Third World (both in countries with Peace Corps Volunteers and those without), and from other development agencies such as AID, UNDP, and FAO.

#### 7.4 TRADE AND DEVELOPMENT PROGRAM

The United States Trade and Development Program (TDP) was established on July 1, 1980 as a component agency of the International Development Cooperation Agency. It is charged with the threefold mission of (1) supporting the economic development efforts of friendly developing countries, (2) helping to increase US exports, and (3) facilitating US access to natural resources of interest to the United States. It accomplishes these objectives by financing feasibility studies and other planning services needed for major capital projects of high priority in the host country. These initial services lead to continuing involvement by US firms throughout the planning and construction phases.

The programs administered by TDP are authorized by sections 607(a) and 661 of the Foreign Assistance Act of 1961, as amended. Under section 607(a), TDP serves as the coordinating and authorizing agency for the provision of technology, technical services, and training by US Government agencies on a fully reimbursable basis. Under section 661, TDP sponsors a wide range of project planning services, from project formulation to feasibility studies. Section 661-funded activities are mainly carried out by private US firms.

TDP provides grants to developing countries for US firms to conduct project planning services for major development projects that would represent significant markets for the export of US goods and services. When feasibility studies are carried out by US entities, US contractors are more likely to be selected to undertake the downstream projects. Thus, the mutual interests of both the host country and the United States are met by furthering development goals and expanding US exports. This leads to job creation in the United States and improvement in the US trade balance with Third World countries.

TDP administers one of the few types of US Government funding that can be extended to strategically important middle-income, AID-graduate, and non-AID countries such as China, Brazil, Korea, Turkey, and the oil-producing countries. TDP has a proven track record, particularly in these non-AID countries, of being able to contribute to high-priority development projects while simultaneously expanding US export markets and the use of US technology in the implementation of these projects. TDP is also an important instrument of the Administration's efforts to involve the US private sector in foreign assistance efforts.

In FY 1984, TDP was active in areas such as energy development (31.4 percent), infrastructure (27.9 percent), industry projects (17.9 percent), telecommunications (13.3 percent), agribusiness (8.9 percent), and minerals/mining (0.6 percent).

It generally takes as many as 2 or more years for a project to move from the feasibility-study stage into the construction/equipment-purchase phase. Occasionally, there are exceptions to this rule. For example, last summer (in FY 1984), TDP financed a visit to the United States by the Chinese Vice Minister of Coal, so that he could be introduced to new US coal technologies and coal-related equipment manufacturers. The visit led to an immediate \$2.3-million purchase of mining equipment from one US firm, and it accelerated the selection of another US firm to study the Yuxian Coal Gasification project in China, a multimillion dollar undertaking.

In the Caribbean Basin, TDP is funding a \$145,780 reimbursable investor project study of crab processing plants and related facilities in Costa Rica. In the course of carrying out the feasibility study, the US firm conducting the study discovered an unexpected abundance of a Tanner crab comparable in size and flavor to the King crab. The discovery has had great impact on the economic and development potential of the project to Costa Rica. It is plausible that Tanner crab exports could reach \$30-40 million annually in 3-4 years, and total employment could reach the 600-1,000 person-year range. US exports of \$10.6 million were originally projected. The new component of the project will add some \$5 million to the US export potential.

Another reimbursable investor project with significant development impact, funded by TDP on a 50-50 basis in FY 1984, was an agribusiness feasibility study in Tunisia. The US firm has already signed an agreement with the Tunisians to process and market Tunisian dates worldwide. Date production in Tunisia will be tripled as a result, and Tunisian dates will be sold all over the world. US firms will be able to realize sales of several million dollars in processing equipment and technical services.

Following are just a few examples of less recent TDP-financed studies that led to contracts for US goods and services.

-- People's Republic of China--Tian Sheng Qiao Hydro-electric Project

TDP Obligation, FY 1982: \$440,000  
Actual US Exports Delivered or Contracted by 1984:  
\$7 million  
Projected US Exports Within Next 5 Years: \$300 million

TDP financed a feasibility study of a potential hydro-electric project at Tian Sheng Qiao, part of a proposed 10-dam plan for the Hongshui River Basin in southern China. This was a major achievement for TDP, which was able to secure a position for US firms at the beginning of the planning process for projects that other countries viewed as a major market for their goods and services.

-- Gabon--Port of Owendo

TDP Obligation, FY 1981: \$75,000, FY 1983: \$300,000  
Actual US Exports Delivered or Contracted by 1984:  
\$500,000  
Projected US Exports Over Next 5 Years: \$100 Million

TDP financed studies that concentrated on the feasibility of Owendo as a minerals-handling port. The Government of Gabon has already signed contracts with the US Corps of Engineers for \$500,000 in technical services. US firms are now signing contracts for implementation of the project, which will result in over \$100 million in sales of US goods and services during the next few years.

-- India--Orissa Power Plant

TDP Obligation, FY 1983: \$270,000  
Funds Obligated by Ex-Im Bank: preliminary commitment  
of \$150 million

TDP funded 50 percent of this reimbursable investor project to do a feasibility study on a thermal power plant in the State of Orissa. The plant will assist substantially in meeting the power needs of the Sambalpur District and will lead to increased industrial activity in the area.

## 7.5 OTHER MAJOR US PROGRAMS

### 7.5.1 Inter-American Foundation

#### Mandate and Organization

The Inter-American Foundation (IAF) was created by Congress in 1969 to provide direct support for the self-help efforts of poor people in Latin America and the Caribbean. Unlike larger bilateral foreign aid programs, the IAF was established to work primarily through private rather than governmental channels to help support, in a responsive mode, local institutions that facilitate broader popular participation in development. In accordance with the mandate from Congress, the IAF's program places an emphasis on activities that improve the daily lives of the poor in Latin America and the Caribbean. The Foundation's funds are derived from Congressional appropriations and the Social Progress Trust Fund.

The Inter-American Foundation has the following mandate:

1. Strengthen the bonds of friendship and understanding among the peoples of this hemisphere
2. Support self-help efforts designed to enlarge the opportunities for individual development
3. Stimulate and assist effective and ever-wider participation of the people in the development process
4. Encourage the establishment and growth of democratic institutions, private and governmental, appropriate to the requirements of the individual sovereign nations of this hemisphere

The IAF is governed by a seven-person Board of Directors appointed by the President and confirmed by the Senate. Four members of the Board are drawn from the private sector and three are appointed from among officers or employees of US agencies concerned with inter-American affairs. A president, appointed by the Board, serves as the IAF's chief executive officer. The IAF's 67-person staff is located at the IAF office in Rosslyn, Virginia. The IAF maintains no overseas staff or offices; its country representatives are based in Rosslyn, but travel regularly to Latin America and the Caribbean to review current projects and new proposals.

The IAF selects projects for support from among a large number of proposals received in the field. The principal criteria for project selection are derived from the institution's

Congressional mandate, as implemented through the Board's policies. The criteria applied concern both the kinds of institutions to which grants are made and the kinds of activities eligible for support.

#### Criteria on Institutions

Grants are made to institutions based on the following characteristics:

1. They are local private organizations and institutions in Latin America and the Caribbean.
2. They must be nonpartisan and must not engage in political activities.
3. They must be established organizations with competent, committed leadership; a good record of performance; and roots in their local communities.
4. They must be democratically organized and managed.

#### Criteria on Project Activities

The following criteria are used to determine grant eligibility of project activities:

1. They benefit poor people who participate in the design and management of their development projects.
2. They must be technically and managerially feasible and have the support of the local community.
3. They will strengthen the organization and enable it to assume subsequent tasks.
4. They must represent part of a broad range of activities that are innovative and experimental and offer promise for expansion or replication in other settings.
5. They are capable of being sustained with local support beyond the period of the grant.

#### Program Review

Over the past 13 years, the Inter-American Foundation has made more than 1,800 grants for \$190 million in 27 nations throughout Latin America and the Caribbean. Many grants are

made to grass-roots organizations such as agricultural cooperatives, community associations, and small urban enterprises. Grants also are extended to larger organizations that work with local groups and provide them with credit, technical assistance, training, and marketing services. The average size of IAF grants is \$105,000; more than half are below \$50,000.

Among the grants made in fiscal year 1984 were the following:

- \$105,385 to the Asociación Nacional de Pescadores Artesanales de Colombia, to support the expansion of its educational programs in the coastal community of Tumaco
- \$40,175 to the Asociación Productores Agrícolas Invernadita in Argentina, to support a cattle-raising and -marketing program designed by poor farmers in Misiones Province
- \$217,810 to the Fundacao Dom Cabral in Minas Gerais, Brazil, for the administration of a project fund to meet the equipment, capital, and management services needs of 31 local agricultural business enterprises
- \$245,910 to the Asesoría Dinámica a Microempresas, A.C. in Monterrey, Mexico, to support the expansion of its educational and technical services program among micro-business owners

#### 7.5.2 African Development Foundation

Established by the US Congress as a public corporation, the African Development Foundation (ADF) became operational in February 1984. ADF works cooperatively with grass-roots groups and institutions that represent the needs and aspirations of Africa's poor at the community and village level. A major goal of the ADF is to encourage the expansion of economic and social development opportunities at the local level--the center of life for most Africans. In the attempt to achieve this goal, the ADF is authorized to make grants, loans, and loan guaranties directly to indigenous African groups, associations, and organizations that operate at the community or village level. Indigenous organizations receiving support from ADF must (1) design, implement, and evaluate their self-help projects, and (2) demonstrate their commitment to encouraging the participation of the poor and grass-roots institutions in all phases of the development process.

ADF is governed by a seven-member Board of Directors. An Advisory Council, with significant participation and membership from the African development community, will work collaboratively

with the Board. A small staff with over 150 person-years of sound African development experience executes ADF's policies and programs.

During its first 7 months of operation, ADF provided support to 13 new projects in seven African countries (Botswana, Lesotho, Liberia, Mali, Niger, Zambia, and Zimbabwe). Grants made during this period totaled approximately \$1 million; the average amount of support provided per project was \$77,551. The ADF's FY 1984 budget was \$3 million.

ADF is a unique organization within the development assistance community because it (1) provides support to small projects that are designed, implemented, and evaluated by Africans; (2) informs applicants of its funding decisions within 5 months of receiving completed proposals; (3) seeks to encourage the development of indigenous development models; (4) targets its resources to expanding the role of the poor in development; (5) provides support to African researchers interested in studying grass-roots development issues and disseminating their results throughout Africa; and (6) disseminates the results of its activities to the US public, other US development assistance agencies, and the international development assistance community.

## CHAPTER 8

### US SUPPORT OF MULTILATERAL PROGRAMS

#### 8.1 THE UNITED STATES AND MULTILATERAL DEVELOPMENT BANKS

##### 8.1.1 US Policy Objectives

US multilateral development assistance efforts are effected primarily through the four multilateral development banks (MDBs)--the World Bank Group, the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank Group--and the International Fund for Agricultural Development (IFAD). The MDBs continue to play a central part in US multilateral assistance programs because of their significant financial resources, their cost-sharing advantages, and their substantial experience in supporting development.

During 1984, the implementation of US policy in the multilateral development institutions marked several notable achievements, particularly in the area of private sector development.

A major step toward strengthening support for private sector development was taken in 1984 when negotiation of the Inter-American Investment Corporation (IIC) was completed on February 29. The IIC is designed to invest, through equity participation and loans, in small- and medium-size enterprises in Latin America and the Caribbean. This new MDB program has 30 founding members and is affiliated with the Inter-American Development Bank. In effect, the IIC, combined with the substantial reduction in the 1983-87 replenishment for the Fund for Special Operations, marks a transition in multilateral assistance for Latin America and the Caribbean from highly concessional foreign assistance appropriate for the poorest countries to more market-oriented forms of assistance appropriate to countries well on the road to self-sustaining development.

A second important step toward strengthening support for the private sector was the broad international agreement achieved in June on a \$650-million capital increase for the International Finance Corporation. The 27-percent US share of this increase will help to support (1) a positive program to assist the private sector in expanding its participation in energy exploration and development, (2) increased program activity in Sub-Saharan Africa, (3) the restructuring of troubled but viable enterprises, and (4) capital market development in borrowing countries.

Efforts to ensure that MDB lending does not displace private capital continued during the year. The US Executive Director at the World Bank opposed or abstained on five lending operations

for the gas and oil sector, on the basis that the proposals would earn such a high financial rate of return that the private sector would undoubtedly be prepared to finance the investment. At the end of the year, the US Executive Director was working with World Bank management and with other Executive Directors to formulate guidelines that would help to clarify World Bank policies with regard to lending for energy development.

Efforts to contain the budgetary implications of MDB lending programs achieved some notable success in 1984. The Seventh Replenishment of the International Development Association (IDA) was negotiated and will provide \$9 billion for the poorest developing countries from 1985 to 1987.

### 8.1.2 World Bank Group

#### Program and Resources

The World Group comprises the International Bank for Reconstruction and Development (IBRD), the International Development Association, and the International Finance Corporation (IFC). The IBRD finances its lending operations primarily from its own borrowings in world capital markets, and the interest rate it charges on loans is related to its cost of borrowing. IDA funds derive mainly from government contributions and are used to extend credits on concessional terms to the very poor countries. The IFC makes loans and equity investments primarily in the private sectors of the developing countries.

During US FY 1984, the World Bank group committed \$15,116.3 million to aid the economic and social development of borrowing countries. Of this total, loans from the IBRD amounted to \$11,120.9 million and new IDA credits totaled \$3,417.6 million. IFC commitments were \$577.8 million. In addition to providing project finance, IBRD and IDA also provide technical assistance, serve as financial catalysts, and support institution building. Moreover, they encourage the adoption of effective economic policies by borrowing countries and increased reliance on market forces.

On May 24, 1984, World Bank Executive Directors recommended that Governors approve an \$8.4 billion selective capital increase (SCI) in IBRD shares, of which 8.75 percent would be paid-in. The purpose of the SCI was to adjust shares in line with the 1983 International Monetary Fund (IMF) quota increase, a long-standing practice that has enabled the World Bank to adjust the relative shareholdings of member countries to reflect changes in their positions in the world economy.

After almost 14 months of negotiations, IDA Deputies agreed on January 14, 1984 to recommend funding of \$9 billion for the Seventh Replenishment (IDA VII) to cover the 3-year period beginning July 1, 1984. Executive Directors recommended the agreement to Governors for approval on May 24, 1984. There are 33 contributors to IDA VII, the largest being the United States (25 percent), Japan (18.7 percent), West Germany (11.5 percent), the United Kingdom (6.7 percent), and France (6.6 percent).

In June 1984, the IFC's Board of Directors recommended approval of a \$650-million capital increase for the IFC. The capital increase proposal, which must still receive the approval of IFC's Board of Governors, is strongly supported by the United States. The capital increase will enable IFC to implement fully its new Five-Year Program.

#### Future Role of the World Bank

On June 8, 1984, the World Bank initiated a series of studies and discussions with Executive Directors on the "Future Role of the World Bank." The review will highlight the World Bank's role in high-debt countries and in Sub-Saharan Africa. A broad range of financial and operational issues will be addressed with the intent of developing a plan for World Bank operations over the next several years.

#### 8.1.3 Inter-American Development Bank

The Inter-American Development Bank (IDB) is a major source of development assistance to developing countries in Latin America and the Caribbean. It provides loans on both near-market and concessional terms.

During FY 1984, the IDB committed \$3,319 million in loans, an increase of 54 percent above the level of commitments recorded in the preceding fiscal year. Of this amount, \$2,889.4 million represented loans on conventional terms from the Ordinary Capital and Inter-Regional Capital resources of the Bank, and \$430 million consisted of loans on concessional terms from the IDB Fund for Special Operations.

As of September 30, 1984, cumulative lending by the IDB (since it began lending in February 1961) amounted to \$25.9 billion, of which \$11.0 billion remained outstanding. Since February 1961, the IDB has lent \$8.3 billion from the Ordinary Capital account, \$7.3 billion from the Inter-Regional Capital account, \$9.0 billion from the Fund for Special Operations, and \$1.3 billion from other sources (primarily the US Social Progress Trust Fund and the Venezuelan Trust Fund).

IDB lending in FY 1984 through all three of its accounts covered 61 projects in 20 countries. Loans were concentrated on projects in industry and mining (approximately 29.6 percent of the total), energy (approximately 24.1 percent), and agriculture (approximately 19.4 percent).

IDB lending is financed primarily through resources derived from borrowings in world capital markets, the paid-in capital subscriptions of member countries, retained earnings, and member contributions to the Fund for Special Operations. As of September 30, 1984, the subscribed capital stock of the IDB amounted to \$21.9 billion (of which \$2.1 billion was paid-in and \$19.8 billion was callable), and Fund for Special Operations resources totaled \$8.2 billion. The US share of IDB capital was \$7.7 billion, or 35 percent of the total.

On November 4, 1983, the United States and other interested countries signed the final act of the negotiations for the establishment of the Inter-American Investment Corporation, which will be linked with the IDB. The IIC will be a new multilateral organization designed to support private sector activities in Latin America through equity and loan investments that focus primarily on small- and medium-scale enterprises. Legislation authorizing full US participation in this new institution was considered by Congress during the fiscal year. It is expected that the IIC's Articles of Agreement will be ratified by all signatory countries by the end of 1985.

#### 8.1.4 Asian Development Bank

The Asian Development Bank (ADB) finances economic development in developing countries in the Asian and Pacific regions through the provision of loans on near-market terms (Ordinary Capital) and on concessional terms (through the Asian Development Fund--ADF). During FY 1984, the ADB approved new loans totaling \$2,294.7 million, or approximately \$0.6 billion more than the amount of loans approved in the preceding year. Of this total, Ordinary Capital loans accounted for \$1,567.0 million and ADF loans for \$727.7 million. Cumulative ADB lending, as of September 30, 1984, totaled \$13.4 billion (\$9.2 billion from Ordinary Capital resources and \$4.2 billion from the ADF).

ADB lending in calendar year 1983 was concentrated in the agriculture and agroindustry (34.2 percent of all loans) and energy sectors (23.8 percent). Transportation and communications projects and development banks together received 14.3 percent, whereas social infrastructure (water and sewerage, housing, education, and health) accounted for 22.3 percent of total loans.

ADB Ordinary Capital lending operations are financed by paid-in capital subscriptions from member governments and

borrowings from private capital markets that are backed by the callable capital guaranties of ADB members. ADF resources that are used for concessional loans are contributed by member countries. During FY 1984, the United States subscribed \$1,323 million to the Ordinary Capital account of the ADB, of which \$66.2 million was paid-in and \$1,256.8 million was callable. This raised US cumulative subscriptions to ADB capital to 240,875 shares valued at \$2.52 billion (when each share is priced at the year-end value of \$10,469). The United States also contributed \$100 million to the ADF during FY 1984, raising its cumulative contribution to the ADF to approximately \$844 million.

Under the terms of the Third General Capital Increase, member countries agreed in FY 1983 to increase ADB's resources by \$8.1 billion (when each share is valued at the \$10,720 price prevailing on September 30, 1982). This is intended to finance lending in the 1983-87 period. The United States subscribed to its full complement of shares in FY 1984 and made payment for the first of five equal annual tranches of \$264.6 million (\$13.2 million paid-in and \$251.4 million callable). The United States also received authorization to participate in a \$3.2 billion replenishment of the ADF, of which its share is \$520 million. During FY 1984, the United States contributed \$97 million toward its first tranche of \$130 million and also completed its contributions to the Second Replenishment of the ADF with a final \$3 million contribution.

During FY 1984, the ADB made its first equity investment to the private sector, without government guaranty. Studies continued on how best to assist the private sector in the region, particularly through cofinancing with commercial banks, lending to the private sector without government guaranty, and conducting seminars on the development of regional capital markets, as well as efforts to increase privatization of public sector entities.

#### 8.1.5 African Development Bank

##### Program and Resources

The African Development Bank (AFDB) was established in 1963 to contribute to the economic and social progress of its regional members, individually and jointly. Until late 1982, membership in the AFDB was limited to African nations. However, nonregional countries have been members of the African Development Fund (AFDF) since its establishment in 1973. The AFDF is the concessional lending affiliate of the AFDB and makes loans only to the poorest African nations.

The United States joined the AFDF in November 1976 and had contributed a total of \$275 million by the end of FY 1984.

During the fiscal year, the United States made a payment of \$100 million on its \$150 million contribution to the Third Replenishment of the AFDF's resources. Total contributions paid to the AFDF by all members as of September 30, 1984 amounted to \$2,126 million.

During FY 1984, AFDF loans totaled \$347.2 million, distributed among 23 African countries. This lending supported projects in the transportation, agriculture, public utilities, and education and health sectors. Transportation projects (primarily roads) absorbed the largest share (34.7 percent) of loan resources, followed by agriculture and public utilities (30.1 percent and 24.6 percent, respectively). In addition, the AFDF lent \$13.6 million for 15 studies. As of September 30, 1984, the cumulative total of AFDF lending was \$2.20 billion.

The United States became a member of the AFDB in February 1983. In joining, the United States agreed to subscribe to a total of \$359.7 million of AFDB's capital over the period FY 1983 to FY 1987. During FY 1984, the United States made the second of five \$71.9 million installments on its subscriptions. As of September 30, 1984, AFDB subscribed capital totaled \$3,330 million.

AFDB lending during FY 1984 amounted to \$563.1 million for 35 loans to 22 countries. Loans for public utility projects accounted for 46.9 percent of AFDB lending during the year, whereas 20.4 percent was for transportation projects, 15.2 percent for agricultural projects, 10.2 percent for health and education projects, and 7.3 percent for industrial credit projects. Cumulative AFDB lending was \$2.89 billion as of the end of FY 1984.

#### Major Policy Issues and Developments

Negotiations for the Fourth Replenishment of AFDF resources were completed in May 1984. Agreement was reached on a replenishment target of \$1.5 billion for lending over the period FY 1985 to FY 1987. For its part, the United States agreed to seek from Congress legislation authorizing a contribution of \$225 million and appropriations of \$75 million per year over the period FY 1985 to 1987.

## 8.2 THE UNITED STATES AND THE INTERNATIONAL ORGANIZATIONS

### 8.2.1 United Nations Programs

US policy toward the development and humanitarian assistance provided through the United Nations has been one of continuous support. The United States remains by far the largest contributor to UN assistance programs. In 1983, according to official UN statistics, it provided over \$540 million, or roughly 20 percent of funding, for operational activities for development in the UN system (excluding the World Bank Group). This policy recognizes that the provision of development resources selectively through the UN system serves the fundamental US interest in international stability and economic development.

The alleviation of hunger, disease, illiteracy, and resource depletion are goals that the United States shares with UN development agencies, including the United Nations Development Program (UNDP), the United Nations Children's Fund (UNICEF), the World Food Programme (WFP), and the International Fund for Agricultural Development (IFAD). The following paragraphs highlight a few of these agencies either because of their central importance (e.g., UNDP) or because of recent US actions warranting special attention.

The United Nations Development Program. The UNDP is the central funding and coordinating mechanism within the UN system for the delivery of grant technical assistance. United States support for UNDP in this role has been the cornerstone of US policy toward the provision of technical assistance through the entire UN system. Since the establishment of UNDP in 1966, the United States has consistently been its largest contributor. The US contribution of \$165 million in FY 1985 constitutes approximately 20 percent of total pledges to the program.

During the past several years, the United States has supported UN efforts to strengthen the leadership role within the UN system of UNDP Resident Representatives, who usually also serve as UN Resident Coordinators in their countries of assignment. In addition, the United States encouraged UNDP to improve its performance in the role of coordinator of developmental assistance from all donors, bilateral as well as multilateral. An important adjunct has been UNDP's efforts to improve the operation of UNDP Roundtables as key coordination mechanisms in countries where there is no World Bank Consultative Group (particularly in small least developed countries where the World Bank may not be involved and where technical assistance is a critical form of development assistance).

The International Fund for Agricultural Development. The United States encourages all nations, including OPEC members as

well as those nations with centrally planned economies, to contribute toward development efforts and support UN development agencies. The International Fund for Agricultural Development is a joint development effort of OPEC and the Organization for Economic Cooperation and Development (OECD), created in order to increase food production in the food-deficit developing countries. During FY 1984, the United States conducted a review of 19 IFAD projects in 14 countries which concluded that these projects are generally well-targeted toward the small farmer and the landless poor and have good food production potential. The United States supports the emphasis IFAD places on aiding small farmers and has participated actively in all sessions of the on-going negotiations for a second replenishment of IFAD. Maintenance of the traditional burden-sharing understanding between the OECD and OPEC donor groups has been the focal point of these negotiations. The United States hopes agreement on a second replenishment will be reached early in 1985.

The World Food Programme. The United States remains the major donor to the UN/FAO World Food Programme and supports its role as the principal multilateral deliverer of food aid. The United States is also encouraging WFP to become more active in coordinating food aid from all donors in many countries, particularly in Africa, where food shortages have reached crisis proportions. The United States also has encouraged both WFP and UNICEF to strengthen the developmental aspects of their assistance. The approaches followed by both WFP and UNICEF, as well as IFAD, have been generally consistent with US development assistance priorities in their emphasis on satisfying the needs of the poorest segments of the population in developing countries.

UNICEF. UNICEF policy is in accord with US humanitarian interests in the developing countries through its emphasis on mobilizing assistance from public and private sources throughout the world for programs benefiting children and mothers. Over the last 2 to 3 years, the United States has credited UNICEF with drawing major attention--from donor countries and developing countries alike--to the need for making available simple, inexpensive technologies, such as oral rehydration therapy, that can save the lives of thousands of children each year. In support of such programs, the United States is providing a special contribution of \$7.5 million to UNICEF in FY 1985 to finance the child-survival activities of indigenous private voluntary organizations.

Population Assistance. The importance that the United States accords to problems of population growth in relation to economic resources is reflected by the support that the United States gave to over 80 resolutions adopted at the August 1984 International Conference on Population in Mexico City. At that conference, US representatives also reaffirmed existing US policy

that abortion should not be promoted as a method of family planning, a view confirmed by the consensus of the conference. In response, the Executive Director of the UN Fund for Population Activities repeated in writing that his organization supports neither abortion nor coercive measures to achieve population growth goals. The United States has accepted these assurances. However, the United States has withheld \$10 million of the earmarked FY 1985 US contribution to UNFPA because of the coercive family planning practices in one country in which UNFPA has a program. The UNFPA program in that country (which is about \$10 million per year) does not itself involve coercion, but the United States wishes to be clearly disassociated from any coercive practices.

United Nations Conference on Trade and Development. The United States has become increasingly concerned with the performance of the UN Conference on Trade and Development (UNCTAD). In January 1984 at a meeting of the North/South Group of OECD, the United States proposed that an effort be undertaken to reform UNCTAD--especially its procedures and administrative practices--to make it a more effective organization in the trade and development field. A special working group, in which the United States participated, prepared a series of suggestions that the North/South Group has now reviewed. The working group will also send these suggestions to representatives of other regional groups at UNCTAD, with the hope that a meaningful dialogue can result in marked improvement in the organization.

United Nations Educational, Scientific and Cultural Organization. In recent years, the United States and other Development Assistance Committee (DAC) members have placed greater emphasis on controlling budgetary growth within the UN system and on improving the efficiency and effectiveness of the UN development assistance programs. To this effect, they have encouraged UN agencies to define their development priorities more sharply and to reexamine their programs continually with a view toward the elimination of activities that have demonstrated only marginal impact and the scaling down of unrealistically ambitious programs. They also have encouraged UN agencies to improve their project design and evaluation systems.

Excessive politicization and ideological bias in the governance of some of these agencies, however, has made it more difficult to bring about constructive changes in their programs. In the case of one specialized agency, the United Nations Educational, Scientific and Cultural Organization (UNESCO), the US Government has objected to the rate of real program growth of the assessed budget since the mid-1970s. The US Government also has been dissatisfied with the direction of UNESCO policies (for instance, the New World Information Order) and with UNESCO's failure to respond to the priorities that have guided US relations with all multilateral organizations.

During the second half of 1983, the Department of State carried out a reassessment (including an in-depth policy review) of US participation in UNESCO. At the conclusion of this reassessment, the US Government decided that continued US participation in UNESCO did not serve the interests of the United States. Consequently, the US Government notified UNESCO on December 28, 1983 of its decision to withdraw from the organization effective December 31, 1984. It was also made clear at that time that should the organization make concrete and significant reforms, the United States would be willing to reconsider its decision to withdraw. On December 19, 1984 the withdrawal was confirmed and it was stated that the United States will, nevertheless, continue to further--through other means of intergovernmental cooperation and various forms of private sector activity--international cooperation in education, science, culture, and communications. The United States will also continue to monitor and encourage reform in UNESCO. Should UNESCO return to its original purposes and principles, the United States would then be in a position to return to the organization.

The United States has been joined in its criticism of UNESCO by other member states including the United Kingdom, which has also informed the Secretariat that it intends to withdraw from the organization if reform is not achieved by the end of 1985.

#### 8.2.2 The Organization of American States

The inter-American system, consisting of six regional organizations, is built around the Organization of American States (OAS) as its keystone. The OAS, the Inter-American Institute for Cooperation in Agriculture, and the Pan-American Health Organization are the principal regional bodies engaged in technical assistance. In 1984, the United States contributed \$104 million in assessments and voluntary contributions to these organizations. OAS programs in development assistance date from the early 1960s when the United States initiated the Alliance for Progress. Two decades of experience have created a tested body of OAS professionals and institutional procedures for managing cooperation for development projects attuned to area needs, conditions, and policies. To date, the OAS has trained approximately 85,000 specialists, some 30,000 since 1970. Many received training at one of the 23 specialized Inter-American Centers jointly funded by the OAS and member countries. These provide specialized training, research, and extension services in such fields as land and water use, public administration, and agricultural research. Some of these Centers have been turned over to the host country as initially intended, once they acquired a sound financial and institutional structure (e.g., The Inter-American Center for Trade Development in Colombia).

Former OAS trainees are found in key positions in government, the private sector, higher education, and in other multi-

lateral organizations (e.g., UNDP). Indeed, because of the unique character of OAS capability in Latin America, UNDP and the United Nations Environment Program (UNEP) have contracted OAS services to execute projects. The Pilcomayo River Basin Project is illustrative of this practice; the OAS contributed \$75,000, UNDP contributed \$1 million, and Bolivia, Paraguay, and Argentina each contributed an additional \$1 million. Nonmember countries have also increased their support for OAS programs; for example, France provided \$550,000 to a Nonconventional Energy Project in Central America, to which the OAS contributed \$370,000 and AID (US) contributed \$125,000.

OAS feasibility studies have led to over \$6 billion in follow-on financing by the World Bank and the Inter-American Development Bank, which was created at OAS initiative in 1959. The Inter-American Institute for Cooperation in Agriculture has been equally successful in obtaining substantial external financing to expand its regular programs; it received \$18.3 million in 1984. The third major element in the tripod of Inter-American multilateral cooperation, the Pan-American Health Organization, has worked closely with the OAS and the Inter-American Institute for Cooperation in Agriculture in an effective division of labor in areas such as animal disease eradication and animal husbandry. Coordination among the three organizations is greatly enhanced by a common language, educational background, and technical experience, as well as shared development objectives in the Americas. Each of these organizations has more than 25 years of experience in managing development projects. Each has also earned an enviable reputation for efficiency and achieving results, as evidenced by the increasing level of external and private funding from nonmember countries and nongovernmental institutions. At the same time, the United States, as the major contributor, has been successful in influencing program objectives and guidelines to adjust them to correspond to basic US objectives in development assistance.

### 8.2.3 Development Assistance Committee

The members of OECD's Development Assistance Committee (DAC) are together responsible for the major part, or about 75 percent, of the total flow of official development assistance to developing countries. DAC itself is not an aid-giving agency and has no development fund of its own. Its main purpose is to stimulate a common effort in development assistance and to assess member governments' policies, with particular respect to the volume, terms, conditions, and geographical and sectoral distribution of their aid. It regularly reviews each member's aid policies and seeks to set quantitative and qualitative standards and to find ways of improving the effectiveness of development assistance. The statistical system built up by DAC is the primary source of information on financial flows to developing countries.

DAC now has 18 members: Australia, Austria, Belgium, Canada, Denmark, Finland, France, West Germany, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland, United Kingdom, United States, and the Commission of the European Communities. Representatives of the World Bank and the International Monetary Fund attend DAC meetings as regular observers.

In 1983, all official and private resource flows from DAC countries amounted to \$69.1 billion, or 0.91 percent of DAC members' combined GNP. Official Development Assistance (ODA), often referred to as aid, reached \$27.6 billion, equivalent to 0.36 percent of DAC members' combined GNP. In real terms, ODA from DAC members was very nearly the same in 1983 as for 1982, but almost 60 percent higher than in 1970.

Current priority concerns of DAC, in addition to the central task of contributing to sustained development assistance efforts, are improved aid effectiveness through better coordination, adaptation of aid instruments and procedures, and the crisis in Sub-Saharan Africa. DAC reviews the flow of multilateral aid and gives attention to aid problems in sectors of special importance for development, such as agriculture and energy, and areas such as women's role in development.

#### Operation of DAC

The work of DAC is carried on mainly through meetings of the Committee and its three Working Parties, normally held at the OECD's Paris headquarters, or through special ad hoc meetings as required. DAC meetings are attended by senior officials from donor countries; once a year the Committee meets at High Level, with ministers or other heads of development assistance agencies attending.

One of DAC's most important activities is the series of meetings known as the "aid reviews." At these meetings, a member government submits to detailed cross-examination by the rest of the Committee on its aid performance during the past year and on the prospects for the future. For each review, the country under examination circulates a memorandum, the OECD Secretariat makes a report, and a set of questions is prepared jointly with two DAC members, appointed in each case as "examiners." Communiques are issued after each review.

Every year, the Chairman of DAC publishes a report on the development cooperation efforts and policies of DAC members. The report this year focuses on Sub-Saharan Africa and adjustment and development issues; assesses resource flows; and discusses public opinion of development assistance, small industries in developing countries, and basic education in Africa.

## Results of the 1984 DAC High Level Meeting

Bilateral donors and representatives of the World Bank, IMF, and UNDP participated in the 1984 Annual High Level meeting of DAC. Central attention was on the means of strengthening aid to support adjustment and resumed development in developing countries and on action required to respond more effectively to the economic and social crises in Sub-Saharan Africa.

Bilateral aid and multilateral development lending were recognized as major factors of support and stabilization for many developing countries facing acute economic, financial, and social problems. The urgent requirements of Sub-Saharan African countries were noted, including the need for more effective and better coordinated aid to help African countries overcome both immediate and long-term obstacles to development.

The tragic situation in drought-affected African countries demands prompt and flexible responses. In wide evidence was donor determination to pursue efforts commensurate with problems in Africa and the commitment to work with the United Nations to organize effective international emergency action.

DAC members are providing Africa with substantial and increasing amounts of food aid and other emergency assistance--such as assistance for storage and food transportation, medical services, water supply, and agricultural inputs--either directly or through international institutions and nongovernmental organizations. Pledges of food aid provided by DAC members during 1984 as reported to the World Food Programme reached well over 3 million tons.

Donors agreed on the importance of coordinating emergency relief efforts and the need during emergency relief operations to take due account of medium- and longer-term development objectives. International institutions were asked to continue to provide up-to-date information on requirements for food and related logistical, administrative, and other assistance. DAC members indicated their readiness to provide additional technical and other assistance to African government institutions and international organizations so as to strengthen their capacity to ensure that aid reaches the most vulnerable people.

DAC members agreed on the need for efforts to promote long-term development, in particular for agriculture and food production. Aid agencies are already moving in directions suggested in the IBRD report, Toward Sustained Development in Sub-Saharan Africa--a Joint Program of Action. Furthermore, DAC members recognized that their programs and practices must be adapted to achieve the degree of coordination, responsiveness, and coherence required. A number of donors supported the suggestion that the World Bank convene an early meeting of aid donors in view of the

urgent need to mobilize additional external assistance (for example, through the creation of a special facility) in support of policy reform programs of African nations. However, the United States noted that AID was already planning a program to support African policy reforms and thus was not in a position to contribute to a new fund for the same purpose.

In reviewing current efforts to improve coordination to achieve greater aid effectiveness, it was recognized that recipient governments must be at the center of coordination efforts and must play the leading role in initiating and sustaining effective arrangements. Donors are prepared to assist developing countries in strengthening their policy planning and coordination capacities. Members welcomed the efforts by the World Bank to increase the number of Consultative groups, to strengthen the aid coordination functions of these groups, and to promote local in-country arrangements for coordination. DAC members also welcomed the related efforts of the UNDP to strengthen the coordination capability of Roundtables.

Some of the specific development assistance areas reviewed during the DAC 1984 High Level Meeting are discussed below.

Multilateral Assistance. The funding of multilateral assistance agencies was reviewed, along with possibilities for improving the replenishment of concessional resources of multilateral development banks. The increase in multilateral aid during the 1970s was seen as a considerable achievement. DAC donors acknowledged difficulties in maintaining and increasing such assistance. The strength of the US dollar was a problem for some donors, requiring substantial increases in national currency to maintain their contributions. Some donors believe that there is a lack of knowledge on the efficiency and effectiveness of multilateral aid, especially on the part of the public. DAC members were in agreement on the need to support a leading role for the UNDP within the UN system of development efforts.

Small- and Medium-Scale Enterprise Development. This DAC review covered the policy framework and roles in policy dialogue and coordination, lessons of experience in aid activities in this field, and the contributions of domestic and foreign enterprise to improving developing country private sector performance. Although DAC members recognize the contribution of small- and medium-scale industry to agricultural and general economic progress, donors have found it difficult to work effectively in this field. Isolated assistance efforts, often of primary benefit to larger industries, have been more common than comprehensive or coordinated donor efforts aimed at special obstacles in small- and medium-scale industry development. The current difficult economic environment in many low-income countries is giving impetus to comprehensive sectoral revitalization or rehabilitation efforts, which both bilateral and multilateral donors are supporting.

Women in Development (WID). Special attention is being given at DAC sectoral meetings to aspects relating to women in development and also to the collection of statistics concerning this issue. It was agreed that members would consult on preparations for the UN Conference on Women in Development in 1985. Also, a review will be conducted of the Guiding Principles to aid agencies for supporting the role of women in development. Some donors called for increased emphasis on private sector development and greater focus on regional aspects of efforts relating to women in development.

Basic Education in Rural Areas. In examining assistance to basic education, especially in Sub-Saharan Africa, donors agreed that the social, economic, and educational conditions of countries south of the Sahara are critical. Basic education must be an integral component of development programs in these countries. The external and internal efficiency of education systems and the financial constraints and means of overcoming them are major issues. Coordination between recipients and donors, and among donors themselves, is an important aspect requiring greater attention. Because of the African development crisis, there is the need to challenge unsuccessful programs and to return to basics. There is now a greater appreciation of the cost-effective contributions that basic education can make to productivity and social equity. Basic education is dependent on, and important to, agriculture and rural development. Many African governments are prepared to undertake fundamental reforms in education.

Aid Coordination. DAC donors endorsed IBRD efforts to expand and improve developing country Consultative Groups, especially in Africa. Donors also endorsed the UNDP efforts to improve the Roundtable coordination mechanism. Donors generally agreed on the need to conduct effective policy dialogues with recipient governments and recognized the need for greater attention to linkages between short-term and medium/long-term assistance among IMF, MDBs, and bilateral donors. Donors are continuing efforts to improve local in-country coordination among their field representatives.

Food Aid. Extensive discussions were held in DAC on a number of aspects regarding food aid. Donors agreed that food aid can be an important development resource, but that proper administration of food assistance is necessary if it is to be effective in promoting development. Program food aid often contributes to development through policy dialogue, for example, in achieving recipient country support for restructuring food prices. Counterpart funds may be used to support other development priorities. Great importance was attached to the integration of food aid with development policies and programs in recipient countries. Food aid is no longer viewed as an inferior or secondary resource in development assistance efforts.

### 8.3 MULTILATERAL EFFORTS AT STRUCTURAL ADJUSTMENT

The multilateral development banks (MDBs) play major roles in encouraging broader and more sustainable economic development and have adapted well to the need to manage their support for an unprecedented set of difficult adjustment problems in member countries. These institutions continue to have the strong support of the United States.

The actual developmental impact of the MDBs in a given situation depends largely on the quality of their programs. Lending quality can always be improved. For several years, the United States has been emphasizing the need to make better use of existing bilateral and multilateral resources in support of policy reform. The last two Development Issues reports have expressed the belief that past MDB lending would have been more effective had the MDBs made greater efforts to enforce conditionality and had they minimized lending to countries unwilling to adhere to MDB advice on economic policy reforms.

#### 8.3.1 World Bank

Several of the World Bank's recent innovations reflect renewed support for according priority attention to economic policy reforms and using conditional assistance as a means to induce and facilitate such changes. One of these innovations is the structural adjustment loan (SAL), designed to induce extensive and interrelated policy reforms in recipient countries. Following the second oil shock of 1979, the World Bank observed that many developing nations needed extensive adjustments in their production systems for two reasons: (1) energy price increases had substantially altered many countries' internal price relationships, their terms of trade, and their balances of payments; and (2) the cumulative effects of years of inappropriate government policies were becoming a growing problem. Because appropriate adjustments often cannot be made piecemeal or in just a few years, the World Bank concluded that extensive and interrelated reform should be undertaken over a medium term period of 4-8 years. To induce and facilitate these reforms, the World Bank introduced SALs, while the International Development Association introduced similarly conditioned structural adjustment credits (SACs).

A SAL program may involve up to five quick-disbursing loans, each conditioned on compliance with policy reforms specified in its predecessor. Most are delivered in two tranches, with releases dependent on compliance with conditions precedent or on performance during the months immediately following release of the first tranche. The conditions governing SALs have been wide ranging, extending from foreign trade liberalization, price

adjustments, public investment rationalization, and improved budget and debt administration to institutional reforms. In their use of loan proceeds, recipients are constrained only by a list of prohibited purchases such as arms and luxuries.

Thirty SALs have been approved; the first two, in March 1980, went to Kenya and Turkey; the 30th, to Jamaica (its third SAL), in November 1984. The 16th participant, Panama, entered the program in December 1983. The SAL portion of World Bank IDA commitments rose from 2.7 percent in FY 1980 to 8.9 percent in FY 1983 and 7.0 percent in FY 1984.

Bolivia and Guyana's SAL programs were terminated after single loans, and the Bank Group subsequently reduced other assistance to them because they were unwilling to institute adequate reforms. Senegal did not receive the second tranche of its first loan because it was unable to implement the complex agricultural sector reforms requested by the World Bank. Bank Group assistance remained at pre-SAL levels, however, because policy dialogue remained productive.

Between March 1980 and July 1984, Turkey received five SALs. They succeeded one another at roughly 13-month intervals as, between 1980 and 1983, merchandise exports doubled, import policies were liberalized, the budget deficit fell from 4.6 to 0.5 percent of GNP, inflation fell from 107 to 31 percent a year, investment practices became more rational, and numerous parastatals were exposed to competition. Following this successful SAL experience, Turkey and the World Bank are to negotiate policy-conditioned loans focusing on particular economic sectors.

Of the other 12 countries in the program, only Jamaica has received a third SAL; Korea and the World Bank agreed that a third SAL was not needed; Kenya and the Philippines are having great difficulty designing third SAL agreements acceptable to the World Bank; and the other eight countries are proceeding satisfactorily toward their second or third loans. Because of the rigorous conditionality attached to SALs, borrowers are reluctant to utilize them, but the World Bank will bring other countries into the program as soon as they agree to policy reforms sufficiently broad and effective.

The World Bank has recently conditioned other assistance on packages of interrelated structural reforms less extensive than those of SALs. These "sector" loans and credits have featured quick disbursements conditioned on sector-related policy and institutional changes.

In February 1983, the World Bank's Directors approved a Special Action Program (SAP) as a temporary measure to accelerate

disbursements under new and old commitments; to expand advisory service on policy reform; and to expand loan support of structural adjustment, export production, infrastructure maintenance, and policy reform. The World Bank's 1984 Annual Report asserts that \$2.5 billion in 1984-86 disbursements have been moved forward by SAP and that SAP has intensified the shift in the World Bank's country and economic sector work toward assistance to structural and sector adjustment. However, it is too early to evaluate the role of SAPs.

The United States maintains that the MDBs should continue to emphasize their mandated responsibility for project lending and that multilateral resources should be allocated to program assistance only when such assistance can be particularly effective in encouraging the policy changes essential for medium- and long-term structural adjustment and institutional reform. Although these conditions are not easily identified, the United States supports continued efforts by the World Bank to obtain policy reforms and structural adjustments through both project and nonproject assistance. In contrast, regional development banks do not appear well positioned to use conditioned nonproject assistance to promote structural change.

### 8.3.2 International Monetary Fund

Since the early 1970s, the International Monetary Fund (IMF) has focused increasingly on the need for policy reforms extending over a number of years in order to eliminate long-standing domestic imbalances that were exacerbating balance of payments difficulties. The IMF has placed increased emphasis on supply-side policy reforms in the context of its Extended Fund Facility (EFF) and through sequential standby agreements and with strengthened World Bank collaboration. As with SAL agreements, the supply-side reforms urged by the IMF extend across a broad range of economic issues, frequently including public sector policies on prices, taxes, and subsidies, as well as the traditional interest rate and exchange rate issues. These supply-side policy reform undertakings are incorporated as "policy understandings" and as letters of understanding to the IMF and represent important elements in attainment of the performance objectives of the adjustment programs.

IMF's efforts to produce more rational economic policies and greater efficiency in resource allocation are essential for achieving structural adjustment and longer term growth and development. For example, the IMF's efforts to reduce inflation and overvalued exchange rates operate directly to reduce the two great taxes developing economies often experience; and these "tax cuts" act, in turn, to induce extensive structural adjustment.

Public attention often focuses on IMF efforts to induce developing countries to raise taxes. Such efforts are criticized

on the grounds that they tend to increase the size of the public sector. But many governments simply create money to fill the gap between tax receipts and expenditures. In such cases, reductions in spending and increases in tax collections narrow budget deficits and reduce money creation, the inflation rate, and the tax imposed by inflation.

When an exchange rate is overvalued, exporters, using the official system, receive less domestic currency than they would with an equilibrium exchange rate. The difference is similar to a tax. Such an overvalued official system subsidizes importers because they pay less than the equilibrium exchange rate. IMF performance criteria frequently require exchange rate adjustments as well as liberalization--including tariff reductions--in national trading systems. Devaluations reduce taxes on exporters and subsidies to importers, whereas tariff reductions provide tax cuts that partly offset the higher prices importers pay for foreign exchange after devaluation.

Thus, the IMF's efforts to cut inflation and to adjust exchange rates can result in lower taxes on the private sector--exporters in particular--and on all who have borne the burden of the inflation tax. The result is a more profitable export sector, a more vigorous private sector, and more efficient resource use in general.

### 8.3.3 Other Structural Adjustment Efforts

Both the General Agreement on Tariffs and Trade (GATT) and the United Nations Conference on Trade and Development (UNCTAD) conduct programs to monitor and assist structural adjustment efforts by developed and developing nations responding to changes among countries in comparative advantage. Fulfilling its responsibilities, the United States has taken significant steps over the last 15 years to provide opportunities for developing countries to expand their exports. The United States now seeks to ensure that consultations within GATT and UNCTAD focus on means to encourage and assist developing nations to adopt structural adjustment policies permitting them to take advantage of export opportunities opened by US and other developed country initiatives.

## GLOSSARY OF ABBREVIATIONS

ADF	Asian Development Fund
AFDB	African Development Bank
AFDF	African Development Fund
AID	Agency for International Development
BIFAD	Board for International Food and Agricultural Development
BIT	Bilateral Investment Treaty
CBERA	Caribbean Basin Economic Recovery Act
CCCD	Combatting Childhood Communicable Diseases
DAC	Development Assistance Committee
DCC	Development Coordination Committee
EEC	European Economic Community
EFF	Extended Fund Facility of the International Monetary Fund
EHR	Education and Human Resources
ESF	Economic Support Fund
FAO	Food and Agriculture Organization
GATT	General Agreement on Tariffs and Trade
GSP	Generalized System of Preferences
IAF	Inter-American Foundation
IBRD	International Bank for Reconstruction and Development (World Bank Group)
ICRC	International Committee of the Red Cross
IDA	International Development Association (World Bank Group)
IDCA	International Development Cooperation Agency
IFAD	International Fund for Agricultural Development

IFC International Finance Corporation (World Bank Group)  
 IIC Inter-American Investment Corporation  
 IMF International Monetary Fund  
 ITC International Trade Commission  
 MDB Multilateral Development Bank  
 MFA Multifiber Arrangement  
 MOU Memorandum of Understanding  
 NIC Newly Industrialized Country  
 OAS Organization of American States  
 ODA Official Development Assistance  
 OECD Organization for Economic Cooperation and Development  
 OPEC Organization of Petroleum Exporting Countries  
 OPIC Overseas Private Investment Corporation  
 ORT Oral Rehydration Therapy  
 PASA Participating Agency Service Agreement  
 PHC Primary Health Care  
 PL 480 Public Law 480 (Food for Peace)  
 PRE Bureau for Private Enterprise of the Agency for  
 International Development  
 PVO Private Voluntary Organization  
 SAC Structural Adjustment Credit of the International  
 Development Association  
 SAL Structural Adjustment Loan of the World Bank  
 SAP Special Action [on Assistance] Program of the World Bank  
 SPA Small Project Assistance, a joint Peace Corps-AID  
 program  
 TDP US Trade and Development Program  
 UN United Nations

UNCTAD UN Conference on Trade and Development  
UNDP UN Development Program  
UNEP UN Environment Program  
UNESCO UN Educational, Scientific and Cultural Organization  
UNFPA UN Fund for Population Activities  
UNHCR UN High Commissioner for Refugees  
UNICEF UN Children's Fund  
UNV UN Volunteer Program  
WFP World Food Programme (UN/FAO)