

BASIC HUMAN NEEDS AND THE PRIVATE ENTERPRISE INITIATIVE

A Report Prepared for the
Bureau for Private Enterprise of the
U.S. Agency for International Development

By

John N. Doggett
1024 Massachusetts Ave., N.E., #8
Washington, D.C. 20002

April 18, 1984

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	- i -
I. INTRODUCTION	1
II. LEGISLATIVE SUPPORT FOR THE BASIC HUMAN NEEDS MANDATE AND THE PRIVATE ENTERPRISE INITIATIVE	3
III. AGENCY EFFORTS TO IMPLEMENT THE MANDATE AND THE INITIATIVE	16
IV. CONCLUSION	26
Footnotes	

EXECUTIVE SUMMARY

I. INTRODUCTION

This report reviews the legislative support for the Basic Human Needs Mandate and the Private Enterprise Initiative. It explores how the Mandate and the Initiative complement and support each other. It also looks briefly at those steps that the Agency has taken to implement the Initiative in ways that are consistent with the Basic Human Needs Mandate.

II. LEGISLATIVE SUPPORT FOR THE BASIC HUMAN NEEDS MANDATE AND THE PRIVATE ENTERPRISE INITIATIVE

Basic Human Needs - The Basic Human Needs approach to development focuses on the primary needs of the poor majority in a country and targets specific deprived groups of individuals and sectors. This Basic Human Needs approach is embodied in the Foreign Assistance Act. The Agency for International Development is mandated to focus all of its development assistance activities on meeting the Basic Human Needs requirements of countries where AID is active.

The Private Enterprise Initiative - The Private Enterprise Initiative is based upon the belief that greater reliance on private enterprise, individual initiative and free competitive markets is essential for the creation of the type of economic growth that Third World countries need to meet the Basic Human Needs of their people. There is clear and explicit legislative support for every aspect of the Private Enterprise Initiative in the Foreign Assistance Act. The Initiative is, in fact, consistent with almost forty years of private sector development experience in America's foreign assistance programs.

Basic Human Needs, Economic Growth and Private Enterprise - The Development Coordination Committee Policy Paper, "Evolution of the Basic Human Needs Concept", issued in March, 1979, presents a detailed analysis of how complementary and consistent private enterprise development activities are with a focused development strategy aimed at addressing the Basic Human Needs of target countries and regions. It argues for a creative, flexible and responsive approach that reflects the needs, culture and ability of each country. It supports the proposition that sustainable improvements in living standards for the poor can be achieved with private enterprise interventions.

III. AGENCY EFFORTS TO IMPLEMENT THE MANDATE AND THE INITIATIVE

The Mandate - In 1975, AID responded to the Congressional mandate that it shift from a trickle down approach to a Basic Human Needs approach with a report documenting the steps that it was taking to adjust to the "New Directions". Many of the points that it made in 1975 are reflected in the Agency's strategy to implement the Private Enterprise Initiative in 1984. The following statement best summarizes the Agency's position in 1975 and 1984: "because of the large investment of resources required [to meet the BHN of the poor majority in a LDC], it is clear that a healthy economy, one which is multiplying job opportunities, government revenues, and foreign exchange earnings, will enhance the prospects of a successful attack on poverty."

The Initiative - AID's efforts have focused on identifying key constraints to the growth of the private sector in most countries and regions and responding to those constraints through policy dialogue and efforts to improve the way LDC markets function. The Bureau for Private Enterprise (PRE) has focused its

efforts on developing and experimenting with new initiatives and modes of operation for the Agency in private sector development. The Bureau also supports and supplements, where appropriate, the private sector development programs of the AID missions and other central and regional Bureaus. Both PRE and the Agency have taken steps to insure that their private enterprise activities are consistent with and further the Basic Human Needs mandate from Congress.

IV. CONCLUSION

The Private Sector Initiative and the Basic Human Needs Mandate represent complementary approaches to the achievement of economic development that stress growth with equity. Both of these ideas are firmly rooted in clear statements of Congressional authority, as reflected by the Foreign Assistance Act of 1961 (as revised). Both give the Agency and the Bureau for Private Enterprise a tremendous amount of flexibility in developing policies, projects and programs that best reflect the needs and problems of each country and region.

With this flexibility, however, comes the challenge of balancing and understanding a number of diverse issues. Both the Agency and PRE have recognized the work required to increase their ability to effectively maximize the potential represented by the Mandate and the Initiative. Much has been done, but the challenge of developing successful private enterprise development programs and projects that help meet the Basic Human Needs of poor people is substantial. The creation of the Private Sector Revolving Fund

marks a major step in the evolution of the Agency's effort to identify and support self sustaining development projects which actively involve the private sector both here and abroad.

While this report reaffirms that the Agency is on the right track, it will be some time before we will know how successful the Initiative has been in hastening the improvement of the Basic Human Needs of LDCs.

I. INTRODUCTION

In 1973, Congress enacted the "New Directions" amendments to the Foreign Assistance Act. These amendments shifted America's development assistance mandate from one that was based upon a "trickle down" approach to one that focused on meeting the "Basic Human Needs" of the poor majority of developing countries. In 1981, the current Administration created the Private Enterprise Initiative as one of the four primary tools that the Agency for International Development would use to implement development assistance activities. This report reviews the legislative support for both the Basic Human Needs Mandate and the Private Enterprise Initiative and explores how the Mandate and the Initiative complement and support each other. It also looks briefly at those steps that the Agency has taken to implement the Initiative in ways that are consistent with the Basic Human Needs Mandate.

This report was commissioned by the Bureau for Private Enterprise (PRE) as part of its continuing effort to assess the Basic Human Needs developmental impact of its activities. This effort flows in part from PRE's designation by the Administrator as the Bureau responsible for formulating and coordinating private sector policy within the Agency.

PRE feels that this is a particularly auspicious time for a review and restatement of the tenets upon which all of its efforts rest. Three years have passed since the Initiative was inaugurated and the Bureau was created. During that time, a number of projects, programs and activities have been initiated by PRE and the Agency. In addition, Congress has just given PRE the authority to create and operate a Private Sector Revolving Fund that will, through the capture of reflows from PRE investments, give the Bureau an opportunity to become self-sustaining. This is a crucial time of transition for the Bureau. This report will help insure that the Bureau maintains its Basic Human Needs focus during the coming years.

II. LEGISLATIVE SUPPORT FOR THE BASIC HUMAN NEEDS MANDATE
AND THE PRIVATE ENTERPRISE INITIATIVE

A. Basic Human Needs

The Basic Human Needs (BHN) approach to development focuses on the primary needs of the poor majority in a country. It calls for the identification of specific groups of deprived people in a country and for the development of specific plans to ensure their access to a "bundle of essential goods and services. While some of the components of this bundle may vary from country to country, there is a common core that includes education, basic health, nutrition, water and sanitation, and shelter."¹ This concern with particular goods and services directed at particular, identified human beings distinguishes the BHN approach from all other developmental strategies.

While BHN reflects an intent to remove mass deprivation, it is not just a methodology to identify impacted groups and to supply them with specific goods and services. BHN is also a philosophy of development based in part on the self-defined needs of the poor and dedicated to a significant restructuring of how the poor majority participate in the economy of their country. The philosophy of the BHN approach can be summarized as one which "is designed to improve, first, the income earning opportunities for the poor; second, the public services that reach the poor; third, the flow of goods and services to meet the needs of all members of the household; and fourth, participation of the poor in the ways in which their needs are met. All four [of these] pillars must be built on a sustainable basis."²

This Basic Human Needs approach is embodied in the legislation that

defines the mandate for the Agency for International Development -- the Foreign Assistance Act of 1961 (as revised) (FAA). Section 101 of the FAA states, in part, that America's development policy should emphasize four principal goals including: "(1) the alleviation of the worst physical manifestations of poverty among the world's poor majority; and (2) the promotion of conditions enabling developing countries to achieve self-sustaining economic growth with equitable distribution of benefits."

In Section 102(a)

Congress declares that the principal purpose of U.S. bilateral development assistance is to help the poor majority of people in developing countries to participate in a process of equitable growth through productive work and to influence decisions that shape their lives, with the goal of increasing their incomes and their access to public services which will enable them to satisfy their basic needs and lead lives of decency, dignity, and hope. Activities shall be emphasized that effectively involve the poor in development by expanding their access to the economy through services and institutions at the local level, increasing their participation in the making of decisions that affect their lives, increasing labor-intensive production and the use of appropriate technology, expanding productive investment and services out from major cities to small towns and rural areas, and otherwise providing opportunities for the poor to improve their lives through their own efforts.

The FAA clearly articulates Congress's desire to focus American development support on "countries which pursue development strategies designed to meet basic human needs and achieve self-sustaining growth with equity."³ The legislation stresses the need to have a "strategy that aims to insure wide participation of the poor in the benefits of development on a sustained basis."⁴ It adopts in essence, the rationale for and philosophy behind the BBN approach to development.

Congress has articulated a number of principles for the implementation of its goals. Two of these principles are of particular importance for the purpose of this study. These are the two sections that spell out how AID's efforts shall be focussed and how success shall be

measured. Section 102(b)(4) states in part that -

Development assistance . . . shall be concentrated in countries which will make the most effective use of such assistance to help satisfy basic human needs of poor people through equitable growth, especially in those countries having the greatest need for outside assistance. . . .

It calls for the President to assess the commitment and progress of countries in moving toward the objectives and purposes of this Act by measuring the following:

- (A) Increase in agricultural productivity per unit of land through small-farm, labor-intensive agriculture;
- (B) Reduction of infant mortality;
- (C) Control of population growth;
- (D) Promotion of greater equality of income distribution, including measures such as more progressive taxation and more equitable returns to small farmers;
- (E) Reduction of rates of unemployment and underemployment;
- (F) Increase in literacy.

The next section, Section 102(c)(5) states that -

U.S. development assistance should focus on critical problems in those functional sectors which affect the lives of the majority of the people in the developing countries; food production and nutrition; rural development and generation of gainful employment; population planning and health; environment and natural resources; education, development administration, and human resources development; and energy development and production.

It is important to state that meeting a country's Basic Human Needs is not a distinct development strategy in itself. It is a major goal or focus of development which can be, and has been, achieved through a variety of development strategies. It requires an intimate understanding of the particular needs and constraints of each country.

"A basic (human) needs approach to development attempts to provide the opportunities for the full physical, mental, and social development of the human personality and then derives the ways of achieving this objective."⁵

"A development strategy guided by the goal of meeting the basic (human) needs of the poor points to a different composition of products and choice of techniques. A strategy to make income

distribution more egalitarian is likely to encourage more labor-intensive methods of production and thereby generate jobs and primary sources of income for the poor. It also is likely to reduce the demand that rapid urbanization makes on scarce capital, scarce skills, and exhaustible natural resources. By raising the level of living of the poor in the countryside, such a strategy reduces the pressure to leave the farmsteads and to expand expensive services in the large cities. By redirecting the composition of production toward products consumed by the poor, it encourages more intra-Third World trade, so that developing countries produce more of what they consume, and consume more of what they produce."⁶

If a Basic Human Needs approach is successful, it is likely that

"available resources are increased because (this approach) makes for a healthier, more vigorous, better skilled, better educated, better motivated labor force, both now and later when the present generation of children enter the labor force because it mobilizes previously underutilized labor (and local materials) and because it makes use of capital-saving techniques."⁷

It is important to stress, however, that

"according to the basic (human) needs approach, it is not sufficient to channel purchasing power into the hands of the poor by creating employment, raising productivity, improving access to productive factors for the self-employed, and instituting appropriate policies for relative prices. In addition, the structure of production and supply and the institutional arrangements must be capable of responding speedily to the demand generated to meet basic needs."⁸

BHN is, in essence, a bottom up philosophy and as such, represents a clear repudiation by Congress of the "trickle down" theory of development.

B. The Private Enterprise Initiative

In its May 1982 Policy Paper on "Private Enterprise Development", the Agency states that its ". . . central objective is to assist recipient countries meet the basic human needs of their poor through sustained, broadly based economic growth." This Administration's Private Enterprise Initiative is based upon the belief that greater reliance on private enterprise, individual initiative and free competitive markets is essential for the creation of the type of economic growth in Third World countries that will enable them to meet the Basic Human Needs of their people.

This country's history of nearly forty years of foreign assistance activity is replete with many examples of our development efforts focusing on or being carried out by the private sector. As a result, the Private Enterprise Initiative does not represent a drastic change in AID's activities. What it does represent is a shift in AID's focus towards the enhancement of private sector activity in developing countries. The Initiative is based upon clear statements from Congress that the private sector in this and developing countries must play a major role in America's development efforts.

Section 102(b) of the FAA states that

- (8) U.S. cooperation in development should be carried out to the maximum extent possible through the private sector, including those institutions which already have ties in the developing areas, such as educational institutions, cooperatives, credit unions, free labor unions, and private and voluntary agencies.
- (9) To the maximum extent practicable, U.S. private investment should be encouraged in economic and social development programs to which the U.S. lends support.

Section 102(a) states that

Provision of development resources must be adapted to the needs and capabilities of specific developing countries. United States assistance to countries with low per capita incomes which have limited access to private external resources should be provided primarily on concessional terms. Assistance to other developing countries should generally consist of programs which facilitate their access to private capital markets, investment, and technical skills, whether directly through guarantee or reimbursable programs by the United States Government or indirectly through callable capital provided to the international financial institutions.

In section after section, the role for private enterprise participation in America's development program is clearly spelled out.

Section 103(a)(1)(c) authorizes the President

to help create productive farm and off-farm employment in rural areas to provide a more viable economic base and enhance opportunities for improved incomes, living standards, and contributions by rural poor people to the economic and social development of their countries.

Section 103(b)(1) says that United States agriculture, rural development and nutrition assistance shall be used primarily for "activities which are specifically designed to increase the productivity and income of the rural poor" including:

- the organization of a system of financial institutions which provide both savings and credit services to the poor;
- stimulation of small, labor-intensive enterprises in rural towns;
- improvement of marketing facilities and systems; and
- the creation and strengthening of systems to provide other services and supplies needed by farmers, such as extension, research, training, fertilizer, water, forestry, soil conservation, and improved seed, in ways which assure access to them by small farmers.

Section 106(d) authorizes AID to support:

- (1) the development efforts of U.S. private and voluntary agencies;
- (2) programs of research into, and evaluation of, the process of economic development in less developed countries and areas, into factors affecting the relative success and costs of development activities, and into the means, techniques, and such other aspects of development assistance as the President may determine in order to render such assistance of increasing value and benefit; and
.....
- (5) programs of urban development, with particular emphasis on small producers, and financial and other institutions which enable the urban poor to participate in the economic and social development of their country.

The Appropriate Technology Section, 107, calls for the support of an "expanded and coordinated private effort to promote the development and dissemination of appropriate technology in developing countries," with a "special emphasis on the use of relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor."

Section 111 authorizes ". . . technical and capital assistance in the development and use of cooperatives in the less developed countries which will enable and encourage greater numbers of the poor to help themselves toward a better life." Section 113 calls for the integration of women into the

national economies of developing countries through the support of activities which will increase their economic productivity and income earning capacity.

Congress has authorized AID to guarantee credit in two programs. Section 221 authorizes the guaranty of housing loans because

"Congress finds that carefully designed programs involving U.S. capital and expertise can increase the availability of domestic financing for improved housing and related services for low-income people by demonstrating to local entrepreneurs and institutions that providing low-cost housing can be financially viable. . . ."

In Section 222(A) Congress states that

in order to stimulate the participation of the private sector in the economic development of less-developed countries in Latin America, (we shall) establish pilot programs in not more than six Latin American countries to encourage private banks, credit institutions, similar private lending organizations, cooperatives, and private nonprofit development organizations to make loans on reasonable terms to organized groups and individuals residing in a community for the purpose of enabling such groups and individuals to carry out agricultural credit and self-help community development projects for which they are unable to obtain financial assistance on reasonable terms. Agricultural credit and assistance for self-help community development projects should include, but not be limited to, material and such projects as wells, pumps, farm machinery, improved seed, fertilizer, pesticides, vocational training, food industry development, nutrition projects, improved breeding stock for farm animals, sanitation facilities, and looms and other handicraft aids.

Congress also authorized the issuance of guarantees

to private lending institutions, cooperatives, and private nonprofit development organizations in not more than five Latin American countries. . . (for loans made to) organized groups of individuals residing in a community to enable such groups or individuals to carry out agricultural credit and self-help community development projects for which they are unable to obtain financial assistance on reasonable terms. . . .

The Private Enterprise Initiative has its most clear legislative mandate, however, in Section 601 - Encouragement of Free Enterprise and Private Participation. It states, in part, that -

- (a) The Congress of the United States recognizes the vital role of free enterprise in achieving rising levels of production and standards of living essential to economic progress and development. Accordingly, it is declared to be the policy of the United States to encourage the

efforts of other countries to increase the flow of international trade, to foster private initiative and competition, to encourage the development and use of cooperatives, credit unions, and savings and loan associations, to discourage monopolistic practices, to improve the technical efficiency of their industry, agriculture, and commerce, and to strengthen free labor unions; and to encourage the contribution of US enterprise toward economic strength of less developed friendly countries, through private trade and investment abroad, private participation in programs carried out under this Act (including the use of private trade channels to the maximum extent practicable in carrying out such programs), and exchange of ideas and technical information on the matters covered by this subsection.

- (b) In order to encourage and facilitate participation by private enterprise to the maximum extent practicable in achieving any of the purposes of this Act, the President shall -
 - (1) make arrangements to find, and draw the attention of private enterprise to opportunities for investment and development in less developed countries and area;
.....
 - (5) to the maximum extent practicable carry out programs of assistance through private channels and to the extent practicable in conjunction with local private or governmental participation, including loans under the authority of Section 122 to any individual, corporation, or other body of persons;
 - (6) take appropriate steps to discourage nationalization, expropriation, confiscation, seizure of ownership or control of private investment and discriminatory or other actions, having the effect thereof, undertaken by countries receiving assistance under this Act, which divert available resources essential to create new wealth, employment, and productivity in those countries and otherwise impair the climate for new private investment essential to the stable economic growth and development of those countries;
 - (7) utilize wherever practicable the services of U.S. private enterprise. . .
 - (8) utilize wherever practicable the services of U.S. private enterprise on a cost-plus incentive fee contract basis to provide the necessary skills to develop and operate a specific project or program of assistance in a less developed friendly country or area in any case in which direct private investment is not readily encouraged, and provide where appropriate for the transfer of equity ownership in such project or program to private investors at the earliest feasible time.

The most recent statement of legislative intent regarding Basic Human Needs and the Private Enterprise Initiative can be found in the newly enacted legislation creating the Private Sector Revolving Fund. In mid-1983, Section 106 was added to the FAA. Section 108 (a) states, in part, that:

The Congress finds that the development of private enterprise, including cooperatives, is a vital factor in the stable growth of developing countries and in the development and stability of a free, open, and equitable international economic system. It is therefore in the best interests of the United States to assist the development of the private sector in developing countries and to engage the United States private sector in that process. In order to promote such private sector development, the President is authorized to establish a revolving fund account in the United States Treasury.

This revolving fund is to be used to support private enterprise projects in developing countries that will create or support productive enterprises that have a Basic Human Needs focus. Profits, or reflows from successful projects will be returned to the revolving fund to help finance additional activities. The fund has an initial capitalization of \$20,000,000. It can grow to \$100,000,000 through reflows and additional appropriations.

Section 108(c)(2) lists 7 guidelines for the types of activities that can be funded by the revolving fund. They are activities that:

- (A) are consistent with the United States development assistance policy set forth in section 102 of this Act, and with the development priorities of host countries;
- (B) are the types of activities for which assistance may be provided under sections 103-106 of this Act;
- (C) will have a demonstration effect;
- (D) will be innovative;
- (E) are financially viable;
- (F) will maximize the development impact appropriate to the host country, particularly in employment and the use of appropriate technology; and
- (G) are primarily directed to making available to small business enterprises and cooperatives necessary support and services which are not otherwise generally available."

It is impossible to read the FAA and not notice how central of a role Congress wants private enterprise efforts to play in helping countries develop sustainable strategies to grow and meet the Basic Human Needs of their people. The question, then, is not whether private enterprise efforts are

allowable. It is, what type of private enterprise development efforts will best serve the needs of the host country in ways that are consistent with AID's BHN Mandate?

C. Basic Human Needs, Economic Growth and Private Enterprise

Near the end of the Carter Administration, the Development Coordination Committee issued a policy paper on Basic Human Needs that we found to be of particular value in our examination of how the Private Enterprise Initiative and the Basic Human Needs Mandate complement each other. This paper, "Evolution of the Basic Human Needs Concept," focuses on the so-called "dichotomy" between BHN and growth development strategies. We find the paper's analysis and conclusions to be of such great significance that we have incorporated part of them as this section of our report.

"Growth and BHN objectives are not separate and distinct. Growth is in fact a vital component of a BHN development strategy, with the pattern of growth being the critical factor. A BHN pattern of growth is one in which the benefits of increased incomes and output are equitably distributed primarily by the growth process itself, rather than redistributed through tax-transfer mechanisms. This process is most likely to succeed when the pattern of growth provides for fuller and more productive employment of human resources, including the poor -- those who cannot meet their basic needs. A pattern of growth in which scarce capital is concentrated in only a few "modern" sectors that account for relatively little employment commonly results in skewed income distribution and tends to make little or no contribution to alleviating scarcity of essential goods or services.

The BHN approach offers two general criteria for appraising patterns of growth; these allow for considerable variety in the pattern of investment, sectoral priorities, and urban/rural emphasis in individual LDCs.

— First, a BHN pattern of growth should in most cases include rapid and broadly-based increases in the volume and productivity of employment. It is conceivable that more wealthy countries -- for example, those with relatively large petroleum reserves -- could rely on redistribution to raise the incomes of their poor, at least for a while. In most developing countries, however, the scope for redistribution is quite limited, and higher incomes for the poor can result only from increasing the share of the poor in overall growth through increased and more productive employment.

— Second, the pattern of growth in output should provide for, but not be limited to, adequate supplies of goods and services -- food,

shelter, education, health services, etc. — that are more or less essential to individual well-being. Much of this "consumption" is more accurately characterized as investment in human capital, and thus contribute to longer-term GNP growth through increased labor productivity.

A BHN development strategy can thus be viewed as a particular extension of general strategies that promote growth with equity. It recognizes that growth in earned income of the poor is vital, but that such income growth must be matched by increased availability of goods and services that satisfy basic needs. Particularly in low income countries, this means that LDCs and donors need to be concerned also about increases in production, supply, and accessibility to the poor of the goods and services that are essential to well-being.

Implications for Foreign Assistance

The criteria that can be used to assess patterns of growth have concrete policy implications, but they also leave room for substantial variation among countries in patterns of production and allocation of foreign assistance. Accordingly, no sector can be excluded a priori as a legitimate target for economic assistance under a BHN strategy. On the other hand, this does not imply that economic assistance needs to be extended to all sectors. The sectoral choice is one that has to be made on a country-by-country basis, taking into account such factors as donor capabilities, relative sectoral needs, the importance of particular development constraints, etc. Whether a given sector is suitable for economic assistance depends on how substantial the linkages are between assistance to the sector and achievement of BHN objectives, compared with alternative uses of assistance. These linkages can be analyzed according to both income/employment effects and production effects.

With respect to employment and income, all sectors employ labor. Most of the poor, especially in low-income countries, are located in rural areas, and depend directly or indirectly on agriculture for their livelihood. There is no presumption in a BHN approach that agriculture is the only productive sector worthy of assistance, however; increasing the productivity of the poor engaged in agriculture is only one approach to the employment problem. Another is expansion of labor-intensive industry, especially small-scale enterprises, which tends to promote substantial expansion in employment. This option is particularly relevant in middle-income countries, where a larger portion of the poor is likely to be located in urban areas.

There are other examples:

- Activities that employ the landless poor, such as public works programs, can contribute both to employment and to the creation of needed infrastructure.
- Certain sectors may provide inputs essential to production processes that employ unskilled labor, without themselves being labor-intensive (e.g., fertilizer). These are suitable targets for foreign assistance under a BHN approach provided the contribution to

Employment, though indirect, is verifiable and substantial compared

with alternative uses of foreign assistance.

- Activities that provide productive employment depend on various types of infrastructure. Improving infrastructure which ultimately makes a significant contribution to labor-intensive production is an appropriate use of foreign assistance under a BHN approach. There is no presumption that this infrastructure must help only the poor, so long as the benefits to the poor are demonstrably large.

On the production side, the obvious approach is to allocate domestic resources and foreign assistance to producing food, water and sanitation, housing, health, education, etc. However, adequate production of these basic goods and services will depend on material inputs (fertilizer, building materials, furnishings), public services (agricultural research and extension, credit facilities), and trained personnel (teachers, paramedics). Thus foreign assistance may be needed beyond the core sectors. In some countries the best approach to adequate food supply (or fertilizer supply) may be to produce and export something else and then import food. Under certain circumstances, foreign assistance that supports such production could help achieve important BHN objectives.

These examples suggest that a variety of sectors, not just a few core sectors, may be important in achieving basic needs objectives. In fact, the bulk of the world's poor are in low-income countries where poverty is pervasive and the problem of meeting basic needs is one of economy-wide proportions. Therefore, since the overall pattern of growth is key to the success of a BHN approach, assistance may in some cases be most effective in BHN terms when directed towards the economy as a whole rather than towards a specific sector. Effectiveness in such cases depends crucially on the institutional and policy setting of the country. Where these are supportive of BHN objectives, assistance provided as a general resource transfer rather than targeted on certain sectors can effectively further these objectives. Where countries are prepared to make structural reforms that will lead to a pattern of growth conducive to increased satisfaction of basic needs (i.e., one characterized by rapid gains in employment and increased availability of essential goods and services), assistance that encourages and supports these reforms serves the purpose of meeting basic needs.

Because the BHN approach is concerned with sustainable improvements in living standards among the poor, the impact on the poor of some policies, programs, and projects can be longer-term rather than immediate, indirect rather than direct, and non-exclusive rather than exclusive. So long as this impact is verifiable and ultimately significant, there is no reason why foreign assistance must be focussed only on direct impact activities. The key condition is that developing countries follow a development plan that is internally consistent, reflects the values and priorities of the population, can be implemented by their institutions, and documents the sorts of linkages described above between the elements of the plan and the BHN objectives. This permits areas of emphasis for certain donors, but does not unduly limit them. However, where donors support aid activities in which the impact on the poor can only be indirect and long-term, it is important that a greater effort be made to assure that both the overall policies pursued and the structure of

internal institutions will permit the poor to participate in the benefits of growth. Otherwise, there is a danger of reverting to some of the unsuccessful trickle-down experience of the past."

The path advocated by this policy paper gives the Agency tremendous flexibility in designing private sector projects that will help improve the Basic Human Needs of the poor majority in LDCs. It is not, however, an easy path to walk. It requires sensitivity to the culture and aspirations of each host country, and an awareness of the difference between a medium or long term BHN with growth strategy and the now discredited trickle down approach. It also requires a far reaching macroeconomic and industry and competitive analysis of target countries and regions, combined with an exhaustive analysis of the country or region's key Basic Human Needs. If all of this is done, the policy paper has demonstrated the creative and supportive connection between the mandate and the Initiative.

It is important to explicitly recognize the philosophical and cultural implications of the Basic Human Needs mandate and Private Enterprise Initiative efforts on another level. They both reflect this country's commitment to support the developmental efforts of those countries which share our values concerning the rights and freedoms of the individual to grow and achieve his or her maximum potential. BHN attempts to insure that the poorest members of a country are not passed over as its economy progresses. The Initiative attempts to insure that these same poor individuals are able to fully participate in a dynamic and growing private sector. The role and value of the individual is central to both, and that focus is, unfortunately, not shared by all countries.

A country's culture and value systems will have a major impact on how easy it is to implement BHN focused developmental efforts and on their level of impact. When researchers look for examples of BHN focused growth

strategies, they normally cite the experience of Japan, Taiwan, South Korea and Singapore. It is unclear whether any of these countries were aware that their approach to the development of their economies was based upon a focus on the Basic Human Needs of their poor majority. What is far more likely is that their development strategies were a reflection of their cultures; cultures which combined a strong sense of communal responsibility and respect for individual initiative. One must also not ignore the impact of American influence from our role as a military power after World War II. The occupation of Japan and the military presence and assistance to South Korea and Taiwan gave this country an opportunity to export our strongly held belief in the importance of the individual. There are very few other developing countries where the combination of their culture and our direct and long term influence are similar.

Success, then, will not come easy in the future. The impact of different cultural values, the effects of colonialization and its aftermath, the radically different energy and commodity price structure since the 50's, and the increasing globalization and interdependence of the world's economies will require even greater creativity and discipline for countries to approach the economic success of Japan, Taiwan, South Korea and Singapore. This also means that how AID and PFE implement the Initiative in response to these challenges will determine their ultimate success in helping to create or support economies that are able to improve the Basic Human Needs of their citizens.

III. AGENCY EFFORTS TO IMPLEMENT THE MANDATE AND THE INITIATIVE

A. The Mandate

In 1975, AID issued a report entitled "The Congressional Mandate: Aiding the Poor Majority."⁹ We found many of the statements contained in the Agency's primary response to the "New Directions" legislation eight years ago to be very helpful in our analysis of PRE's efforts to translate the Initiative into policies, programs and projects.

The report stated that "AID has a mandate from the Congress to help the poor majority in developing countries raise their living standards beyond subsistence levels. AID programs are to be concentrated in the major problem areas of food and nutrition, population and health, and education and should be marked by the involvement of the poor in the development process."¹⁰ AID defined the poor majority to include anyone in AID's recipient countries whose income falls below \$150 in 1961 prices. . . . (or) anyone who lacks minimum acceptable nutrition or health status. . . . "¹¹ AID estimated this group to be in excess of 800 million people in 1975. Current estimates suggest that this class now exceeds 1 billion people.

In discussing how AID could have a meaningful impact in helping so many people with its limited resources, the report stated that "whenever possible. . . AID support must be part of a development approach conducive to the broad-based systemic change needed to affect the lives of the poor. Constraints to development in the economy, society, and politics of the LDC must be identified and a package of coordinated policies established to remove or weaken those impediments."¹² A key element of AID's current Private Enterprise Initiative is the identification of key constraints to the growth of private sector led development and the creation of programs to eliminate

those constraints.

It was AID's belief in 1975 that "the participation emphasis of the mandate reflects the congressional view that AID expenditures should represent not consumer handouts with temporary though beneficial impact but investment in people that pays off in increased capacity to produce, the sine qua non of the developing countries' own efforts to sustain improvements in living standards."¹³ Support of interventions that assist the private sector in increasing the productivity of the people of an LDC without government or foreign aid subsidies, in other words, self-sufficient growth, is at the center of the Private Enterprise Initiative's raison d'etre.

In 1975, the Agency said that "for each AID program or project, specific targets should be set reflecting unique country circumstances, policies, and resources that affect payoff prospects. . . ."¹⁴ "Our ultimate targets include improvements in individual income, health and nutrition. . . . In setting income targets, for example. . . a group of primary beneficiaries should be identified, and consideration should also go to how others may benefit indirectly, this multiplies program effectiveness."¹⁵ There is nothing about the passage of eight years and the coming of the Initiative that diminishes the need for clear target statements that identify in as much detail as possible the expected developmental impact and benefits from a private sector project.

Improving the productivity of the rural sector of LDC's has always been a major goal of America's development programs. In 1975, AID stated that "what is needed [to effectively respond to the new BHN mandate] is a package of rural development programs involving agriculture, service and industries, infrastructure and institutions designed to improve home consumption, money income, nutrition and the health of the poor both directly and indirectly, by

providing greater access to better technology, improved inputs, credit, transportation and other goods and services, the scarcity of which now constrains rural development."¹⁶ This remains AID's focus today and many of PRE's and AID's private sector projects are targeting the same areas identified eight years ago as being crucial to the achievement of a Basic Human Needs development strategy.

AID's bottom line response to the challenge issued to it by Congress a decade ago is best summed up in their statement from its July 1975 progress report to Congress on its success in "Implementation of New Directions in Development Assistance."¹⁷ In that report, the Agency said "Because of the large investment of resources required [to meet the BHN of the poor majority in a LDC], it is clear that a healthy economy, one which is multiplying job opportunities, government revenues, and foreign exchange earnings, will enhance the prospects of a successful attack on poverty."¹⁸ The Private Enterprise Initiative represents a focused attempt to help LDC's create the "healthy economy" so clearly desired by the advocates of BHN in 1975.

B. The Initiative

1. Agency Policy in General

In its May 1982 policy paper, "Private Enterprise Development," the Agency states that its policies on private enterprise development are "based on the premise that greater reliance on private enterprise in Third World development is essential to the effective and efficient achievement of AID's central objective. AID's central objective is to assist recipient countries meet the basic human needs of their poor through sustained, broadly-based economic growth."¹⁹

AID's private enterprise efforts are based upon a conviction that:

- 1) economic growth is central to the alleviation of poverty in the Third World;
- 2) private enterprise is the engine that makes growth occur most quickly;
- 3) a free and competitive market environment stimulates private enterprise; and
- 4) allocation of resources through competitive markets are almost invariably fairer and more equitable, over time, than allocations made by governments.*²⁰

As a first step in designing policies, programs and projects to expand the role of private enterprise in development, the policy paper calls for an analysis of those constraints that are inhibiting growth of the private sector of a LDC. These may include:

- (1) country macro- and micro-policies which impede an expanded role for private enterprise in development;
- (2) bottlenecks which hinder the development of competitive well-functioning markets;
- (3) the impact of infrastructure limitations on the growth of the private sector;
- (4) the existence of a financial market system which is insufficiently developed to provide local private enterprise with the necessary investment funds for expansion;
- (5) an inadequate entrepreneurial and managerial skill base to support the growth of private sector activities in traditional or new areas for the host country;
- (6) low levels of training and discipline of the local work force;
- (7) low levels of technological innovation present; and
- (8) constraints which reduce the flow of foreign private investment below optimal levels.

As important as the identification of constraints is, it is but the first step of a long evaluative process. Before the Agency can even begin the

process of educating the host government about the existence of and importance of these constraints, it must first look at the implications that various alternatives to the alleviation of these constraints have upon the achievement of Basic Human Needs goals. This is a crucial point. At every step of the Agency's process, the needs of the Initiative and the Mandate must be considered and coordinated.

The primary emphasis of AID's efforts ". . ." will be to encourage policy reform and to improve the way markets function."²¹ To help improve the environment for local private enterprise, AID will work to improve the functioning of LDC markets by: (1) encouraging policy reform by the host country's government; (2) strengthening institutions that serve the private sector; and (3) supporting training and management development programs that will address human resource deficiencies in key skill areas.

AID has targeted four priority sectors upon which it will focus its private enterprise efforts: 1) agriculture, 2) agribusiness, 3) small and medium scale industry, and 4) privately operated service enterprises. In addition, the Agency is encouraging missions to use Economic Support Funds (ESF) to provide broad support to the initiative in such areas as urban development, infrastructure, export in domestic industry or other areas that are directly supportive or complementary.

The Agency is committed to increasing the quality and flow of technical and financial resources to LDCs. It is doing this by creating projects to facilitate the creation, transfer, adaptation, dissemination and use of technologies that will raise the productivity of LDC workers, reduce costs to consumers, and make investments more profitable. The Agency will also provide information to potential US private sector investors and joint venture partners and will package projects in ways that will maximize their

synergetic potential by recognizing all of the potential linkages between the various sectors.

AID faces a number of hurdles to the successful implementation of policies, projects and programs utilizing private sector mechanisms. For example, "Few AID staff members have lengthy experience working directly with United States and developing country private enterprise."²² In its May 1982 Policy Paper, the Bureau for Private Enterprise identified the following "challenges" that AID faced in increasing its efforts to make the private sector a more potent development force in developing countries. They include:

- "The limited amount of existing AID expertise in such critical areas as business management, private sector finance and marketing, cofinancing with commercial banks and packaging and brokering private sector business opportunities;
- The limited knowledge of the capital and marketing needs of, and desirability of foreign partnerships for, indigenous private firms in host countries;
- The lack of established policies and procedures within the Agency for identifying, developing, approving and implementing developmentally oriented private sector projects in a timely manner; and
- The limited recent experience in counseling host governments on how to improve the conditions for increased domestic and foreign private investment."²³

Identification of internal constraints is an important step in the long process of enhancing the Agency's ability to respond creatively to the opportunities presented by the Mandate and the Initiative. The Agency has just created an official job description for Private Sector Officers and is now developing a training program to acquaint Agency personnel with those business and management tools which can assist them in designing self-sustaining development programs and projects. In addition, the Agency now has a Private Sector Liaison Committee to help insure that all of AID's private enterprise efforts reflect a consistent approach to development.

2. The Bureau for Private Enterprise

At the center of the Agency's private enterprise efforts is the Bureau for Private Enterprise. The Bureau for Private Enterprise (PRE) was established by the Administration to take the lead for the Agency in implementing the Private Enterprise Initiative. PRE is charged with developing and experimenting with new initiatives and modes of operation for the Agency in private sector development and to support and supplement where appropriate, the private sector development program of the AID missions and other central and regional Bureaus. PRE is also responsible for coordinating Agency private sector policy and programs.

In its May 1982 Policy Paper²⁴ PRE identified three key objectives:

- (1) along with the host country, international financial institutions and U.S. private investors, (to) assist in financing productive and developmentally desirable private enterprises in priority sectors in LDCs;
- (2) (to) bring together LDC investment opportunities, U.S. and host country capital and experienced management in order to transfer technical, managerial and marketing expertise from the U.S. to LDC's;
- (3) (to) stimulate conditions conducive to the flow of U.S. and host country private capital into productive investments in LDC priority sectors.*²⁵

To accomplish the above PRE is (1) assisting in the identification, development, promotion and financing of projects in LDCs; (2) helping to establish, finance and improve private development finance corporations; (3) encouraging the growth of LDC capital markets; (4) providing counsel to host countries on how to create climates conducive to the growth of private investment; (5) creating capital-exporting countries' interest in portfolio investments in LDC enterprises; (6) helping establish managerial and technical training institutions to support the private sector; (7) promoting and financing business relationships between U.S. and LDC groups with similar private sector interests.

Seventy percent of PRE's resources are committed to investments in projects in selected LDCs in Asia, Africa, the Near East and Latin America. PRE's investment program strategy targets three types of investments: cofinancing of highly developmental projects with commercial banks and other financial institutions; capitalization of privately owned Intermediate Financial Institutions (IFIs) which serve the private sector; and, direct investment in select agribusiness, industrial, leasing or other business ventures in LDC's where replication by other enterprises would assist private sector development.

PRE also assists central and regional AID bureaus by: (1) helping with the identification and screening of investment opportunities for possible AID funding; (2) serving as a catalyst to assemble financing for investment opportunities; (3) providing three types of advice and technical assistance: (a) to host countries in the area of investment policy and establishment of financial intermediaries; (b) to prospective investment partners on developing projects for AID consideration; and (c) to public and private host country institutions on building investment infrastructure and providing managerial training. In addition PRE has responded to specific mission requests for technical assistance in private sector development matters; supported the creation of a formal "private sector officer liaison committee" to discuss policy issues and specific projects; and participated in the development of the set-aside program in which PRE provides assistance to selected country missions on private enterprise strategies and projects.

In Fiscal Year 1964, PRE has concentrated on the following areas:

(1) Investment Environment - including financing studies on the investment environment in five countries, resulting in recommendations to the concerned

governments on changes needed to make the environments more conducive to business development;

(2) Capital Market Institutions - including studies and recommendations on how to improve existing capital market systems to attract resources and provide financing for private enterprises;

(3) Management/Vocational Training - including development of programs addressing training needs;

(4) Technology Transfer - including support to Joint Agricultural Consultative Corporation and International Executive Service Corps to explore ways of transferring agribusiness technology and management, production and marketing know-how, respectively, to LDC companies for increased productivity and product improvements;

(5) Investment Promotion - including efforts to indigenous businesses and joint ventures with U.S. businesses in priority sectors, e.g., capitalizing private IFIs and direct lending in agribusiness, health/medical services delivery, and small/medium manufacturing enterprises.

PRE's most significant challenge will be to create and support projects and activities which will have a substantial impact of the achievement of the Basic Human Needs goals of the host countries while also being innovative and commercially successful private sector interventions. To help it walk this tightrope. PRE states that underlying all of its activities is the following principle: "we must meet development criteria directed toward achieving a better quality of life for the poor majority."²⁶ In its Investment Opportunity Proposal Criteria and Requirements brochure, PRE states that "As well as meeting feasibility and prospective venture profitability requirements, projects must have a substantial development impact, for example by: generating net employment; earning foreign exchange; developing

managerial, technical or other skills; or transferring technologies. The proposal should document, in as much detail as possible, the likely development impact of the projects." Finally, PRE's Policy Paper states that project prospectus should include a statement of "Projected development impact (numbers and type of jobs generated, wage income produced, technical skills added, multiplier effects in the economy, etc.)"²⁷

While these statements represent an important part of the process of insuring that all of PRE's activities maintain the balance between the Initiative and the Mandate, they alone are not enough. In recognition of this fact, PRE is currently engaged in a major internal effort to both review and strengthen those mechanisms that it uses to insure that all of its activities help advance the efforts to improve the Basic Human Needs of the poor majorities in all countries where PRE is active. The results of this effort will be of major value not only to PRE, but to the Agency and all development bodies around the world that are committed to growth with equity—that are committed to Basic Human Needs.

IV. CONCLUSION

The Private Sector Initiative and the Basic Human Needs Mandate represent complementary approaches to the achievement of economic development that stress growth with equity. Both of these ideas are firmly rooted in clear statements of Congressional authority, as reflected by the Foreign Assistance Act of 1961 (as revised). Both give the Agency and the Bureau for Private Enterprise a tremendous amount of flexibility in developing policies, projects and programs that best reflect the needs and problems of each country and region.

With this flexibility, however, comes the challenge of balancing and understanding a number of diverse issues. Both the Agency and PRE have recognized the work required to increase their ability to effectively maximize the potential represented by the Mandate and the Initiative. Much has been done, but the challenge of developing successful private enterprise development programs and projects that help meet the Basic Human Needs of poor people is substantial. The creation of the Private Sector Revolving Fund marks a major step in the evolution of the Agency's efforts to identify and support self sustaining development projects which actively involve the private sector both here and abroad.

While this report reaffirms that the Agency is on the right track, it will be some time before we will know how successful the Initiative has been in hastening the improvement of the Basic Human Needs of LDCs.

FOOTNOTES

1. The World Bank, Poverty and Basic Needs, September, 1980, p. 13.
2. Ibid., p. 6.
3. Foreign Assistance Act of 1961(as revised), section 102(a).
4. Ibid., section 102(b).
5. Streeten, Paul, et. al., First Things First: Meeting Basic Human Needs In Developing Countries, published for the World Bank by Oxford University Press, New York, 1981. p.37.
6. Ibid., p. 24.
7. The World Bank, op cit, p. 8
8. Ibid., p. 43.
9. AID, Implementation of "New Directions" In Development Assistance: Report to the Committee on International Relations on Implementation of Legislative Reforms in the Foreign Assistance Act of 1973, Committee on International Relations Print, July 22, 1975.
10. Ibid., p. 64.
11. Ibid., pp. 65-66.
12. Ibid., p. 68.
13. Ibid., p. 69.
14. Ibid., p. 70.
15. Ibid., pp. 70-71.
16. Ibid., p. 77.
17. Ibid.
18. Ibid., p. 5.
19. AID, Private Enterprise Development, Policy Paper, May, 1982, p. 1.
20. Ibid.
21. Ibid., p. 5.
22. Ibid., pp 9-10
23. AID, Bureau For Private Enterprise Policy Paper, Policy Paper, May, 1982, p.2.
24. Ibid.
25. Ibid., p. 1.
26. AID, Bureau for Private Enterprise, Pamphlet - The Private Enterprise Initiative, p. 13.
27. Ibid., p. 11.