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ANNUAL AID REVIEW

MEMORANDUM TO  
  
THE DEVELOPMENT ASSISTANCE COMMITTEE

United States International Development Cooperation Agency  
Agency for International Development  
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## 1985 UNITED STATES ANNUAL AID REVIEW

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## UNITED STATES ANNUAL AID REVIEW MEMORANDUM

### I. MAJOR NEW POLICY ORIENTATIONS

#### A. Economic Assistance Objectives

The broad objectives of U.S. bilateral assistance programs remain (1) promotion of stability in friendly countries by assisting them to overcome their financial difficulties and (2) assistance to help developing countries to create the conditions for self-sustaining growth of a kind that permits the poor to participate in and to benefit from the growth process. The two broad objectives are related: 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 U.S. 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. Key services such as education and public health are more efficiently provided when each member of a society is able to assist in the financing of these services and, in doing so, to become involved in their distribution. The U.S. believes that a policy environment which stimulates the private sector, strengthens local institutions, and adapts technology to meet the needs of the poor, is the most effective approach to successfully meeting basic human needs. AID's emphasis in these areas has served to supplement, rather than replace, its strategy with respect to the "New Directions" legislation or "Basic Human Needs" approach.

Over the last four years, AID has made some fundamental changes in its approach to development assistance. These changes focus AID's efforts on achieving systemic change that affects the structures by which development occurs.

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

- The use of assistance to support aid-recipient countries own economic policies when they are effective, and to promote their improvement when they appear to be hampering 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.

## B. New Initiatives

The United States has undertaken several new and important efforts in the foreign assistance area during the past year.

### 1. Privatization

Parastatal privatization or divestiture is a major focus of AID's policy dialogue with LDCs. AID offers varied assistance to LDCs in their privatization efforts. The Agency is currently developing a mechanism for providing technical support on privatization issues to field missions. AID has prepared numerous studies on the overall area of privatization and divestment. A 1983 study looked at privatization efforts in five countries--Jamaica, Kenya, Sudan, Indonesia and Bangladesh. Shorter studies are available that examine specific aspects of the privatization process such as management contracting, business analysis, and the contract plan, as well as case studies of individual country privatization plans, such as those in Tunisia, Malaysia, Thailand and the Philippines.

### 2. Encouraging Private Enterprise Development Through Multilateral Institutions

The U.S. Department of the Treasury, AID, and other government agencies have formed an interagency group to develop new policy initiatives in the area of private enterprise development and privatization for the multilateral development banks. The purpose of this effort is to encourage the MDBs to lend more of their resources to private enterprise development efforts, to encourage parastatal privatization or divestiture, and to decrease MDB lending to parastatal or other government-owned enterprises.

### 3. Channeling A.I.D. Resources Through Private Entities

AID is channeling more of its resources through private sector mechanisms when host country conditions have made this possible. In addition to the many projects that are categorized as solely private enterprise development, AID field missions pursue many projects which use the private sector as a delivery mechanism or benefit the private sector. These projects are found in agribusiness development, food and agriculture development, the delivery of family planning services, improvement of health care, the provision of education and training services, and the efficient provision and maintenance of transportation and infrastructure in developing countries.

### 4. New Policy Guidance for U.S. AID Activities

Drawing on experience accumulated in past projects, AID has provided increased policy guidance to its field Missions through the development of Policy Papers or Policy Determinations in the areas of trade, disaster assistance, and employment. Other recent guidance includes Local Organizations in Development, Energy, Urban Development, Shelter, Private Enterprise Development (revised), Development Communications, and Human Rights.

### 5. Responding to Presidential Commissions

Various efforts are underway to respond to and implement the recommendations made by Presidential task forces or commissions during the previous two years. AID has been pursuing economic and democratic development in Central America, following the guidance of the National Bipartisan Commission on Central America. AID is also aggressively seeking to implement many of the recommendations of the President's Task Force on International Private Enterprise.

### 6. Narcotics Awareness

The commitment of host countries to curb the illicit production and trafficking of narcotics in their own countries is critical to the success of worldwide narcotics control efforts. Increasingly drug producing countries in the developing world are coming to realize that the production, trafficking and abuse of narcotics is not an exclusive problem of the industrialized nations. Governments, as well as private organizations and individuals of some developing countries, have expressed interest in taking steps to educate their

opinion leaders and the general public on the hazards posed by narcotics production, trafficking and abuse. In response to increased LDC interest, AID has developed a Narcotics Awareness Initiative. Its purpose is to assist host governments and private organizations to develop the capacity to provide information to their people on the effect that the drug trade and drug abuse has on society in general and on individuals within that society.

### 7. Child Survival Initiative

Additional funds for health and nutrition appropriated by Congress in Fiscal Year 1985 for Child Survival were obligated by AID to more than 50 projects and grants designed to have direct impact on the lives of children in developing countries. AID is working with private voluntary organizations, UNDP and UNICEF, as well as through AID missions overseas, to carry out this initiative. Projects undertaken with Child Survival funding will concentrate on high impact interventions including immunization, oral rehydration therapy, early childhood nutrition, and child spacing.

## II. The Volume of Official Development Assistance (ODA)

### A. ODA disbursements in 1983 and 1984

Net ODA disbursements rose to \$8.711 billion in CY 1984, an increase in current prices of 8 percent over the \$8,081 million registered during CY 1983. Adjusted for inflation, the increase was approximately 4 percent. Owing to unusually rapid economic growth however, U.S. aid as a proportion of GNP remained unchanged at 0.24 percent, the lowest ratio among DAC countries. The U.S. remains the largest donor, accounting for an estimated 30 percent of net DAC ODA. On a worldwide basis, the U.S. contribution amounts to an estimated 22.5 percent of total aid.

Bilateral ODA reached \$6,457 million in 1984. The figure was an impressive \$894 million above the \$5,563 recorded in 1983. In contrast to other recent years, the increase was broad-based rather than attributable to higher disbursements in Egypt and Israel. Net ODA to both countries changed little between 1983 and 1984. Bilateral disbursements to the Least Developed Countries or, LLDCs, rose from \$693 to \$736 million while aid to Sub-Saharan Africa rose from \$766 to \$857 million. The rates of growth were 6.2 percent and 11.9 percent respectively.

Contributions to multilateral institutions declined somewhat in 1984. Net disbursements on an issuance basis fell from \$2,518 million in 1983, to \$2,254 million in 1984. U.S. contributions to the MDBs have tended to be delayed and bunched in recent years, creating sizable year-to-year swings in ODA disbursements on an issuance basis. In addition, given the DAC's computation of data on a calendar year basis, the U.S. fiscal year timing of disbursements can create even further substantial shifts in DAC calendar year data.

#### B. ODA Trends and Future Prospects

Historic trends in ODA since 1973-1974 appear in Table A. The most salient characteristic of U.S. net ODA performance during the past decade has been its relative stability. In both the 5-year periods 1973-1978 and 1979-1984 the average annual real rate of growth in net ODA disbursements was sustained at a constant 3.1 percent.

The composition of the overall growth rate was markedly different in each period, however. Multilateral ODA was growing at an average annual rate of nearly 8 percent throughout 1973-1978. The rate declined by more than 50 percent in the second half of the decade, and there was an absolute decline in CY 1984. Nevertheless, on the average multilateral ODA continued to grow more rapidly than its bilateral counterpart.

The ODA/GNP ratio has likewise remained remarkably constant. The five year averages for the overall ratio, as well as for the bilateral and multilateral components, remained at 22-24%, 16-18% and 5-7% respectively throughout the decade.

The U.S. Development Budget for fiscal years 1984 through 1986 appears in Table B. The fiscal year 1985 figure is an impressive 52.9 percent above the amount enacted for the preceding year. As budgeted at the present time, development assistance is scheduled to return in FY 1986 to approximately the FY 1984 level. It is customary for supplemental appropriations to eventually raise the level of funding initially requested, however. Given the continuation of drought in the Sahel, it is probable that actual spending for FY 1986 will approach the FY 1985 level.

Table B demonstrates clearly the continued strength in U.S. ODA flows. The net total Development Budget has increased from \$8.8 billion in FY 1984 to \$13.0 billion in FY 1985,

Table A

1. UNITED STATES: VOLUME TRENDS OF OFFICIAL DEVELOPMENT ASSISTANCE (ODA)

	Annual Averages for Recent Five Year Periods				
	<u>1973-74</u>	<u>1978-79</u>	<u>1983-84</u>	<u>1983</u>	<u>1984</u>
ODA Disbursements (\$ Million)	3,165	5,174	8,396	8,081	8,711
1983 Prices (\$ Million)	6,087	7,075	8,237	8,081	8,392
--Bilateral	4,745	5,127	5,905	5,563	6,247
--Multilateral	1,342	1,948	2,332	2,518	2,145
Percent of GNP (%)	0.23	0.22	0.24	0.24	0.24
--Bilateral	0.18	0.16	0.17	0.17	0.18
--Multilateral	0.05	0.06	0.07	0.08	0.06

2. AVERAGE ANNUAL GROWTH RATES OF ODA DISBURSEMENTS IN REAL TERMS OVER RECENT FIVE YEAR PERIODS

	(Percentages)	
	<u>1973-74 to 1978-79</u>	<u>1978-79 to 1983-84</u>
Total ODA	3.1	3.1
--Bilateral	1.6	2.8
--Multilateral	7.7	3.7

Source: OECD

Table B

U.S. Comprehensive Development Budget  
(Budget Authority in Millions of Dollars)

	FY 1984 <u>Actual</u>	FY 1985 <u>Estimated</u>	FY 1986 <u>Request</u>
<b>BILATERAL ASSISTANCE</b>			
AID Development Assistance <u>1/</u>	2,011.5	2,470.9	2,133.4
Trade & Development Program	16.3	21.0	20.0
Overseas Private Investment Corporation (OPIC)	<u>2/</u>	<u>2/</u>	<u>2/</u>
Food for Peace (PL 480) <u>3/</u>	1,377.0	1,964.0	1,307.0
Economic Support Fund and Peacekeeping Operations	3,300.5	6,084.0	2,861.0
Peace Corps	117.0	128.6	124.4
Inter-American Foundation	13.0	12.0	8.7
Migration & Refugee Assist. <u>4/</u>	328.7	375.5	337.7
<b>Subtotal, BILATERAL</b>	<b>7,164.0</b>	<b>11,056.0</b>	<b>6,792.2</b>
<b>MULTILATERAL ASSISTANCE <u>5/</u></b>			
International Bank for Reconstruction & Development Selected Capital Increase	79.7	139.7	109.7
International Development Association	-	-	73.2
International Finance Corp	945.0	900.0	750.0
African Development Bank	-	-	35.0
African Development Fund	18.0	18.0	18.0
Asian Development Bank	50.0	50.0	75.0
Asian Development Fund	13.2	13.2	13.2
Inter-American Development Bank	100.0	191.2	130.0
Fund for Special Operations	38.0	78.0	58.0
IADB Investment Corporation	80.4	145.0	72.5
International Organizations & Programs	-	13.0	13.0
UN Development Program	315.0	362.3	196.2
UN Children's Fund (UNICEF)	160.0	163.0	120.0
Organiz. of American States	52.5	53.5	27.0
Other IO Programs <u>6/</u>	15.5	15.5	15.5
International Fund for Agricultural Development <u>7/</u>	37.0	34.7	33.7
<b>Subtotal, MULTILATERAL</b>	<b>1,639.3</b>	<b>1,910.5</b>	<b>1,543.8</b>
<b>Gross Total:</b>	<b>8,803.3</b>	<b>12,966.5</b>	<b>8,336.0</b>
<b>Offsetting Receipts (A.I.D.)</b>	<b>-730.0</b>	<b>-625.4</b>	<b>-654.4</b>
<b>GRAND TOTAL</b>	<b>8,073.3</b>	<b>12,346.1</b>	<b>7,681.6</b>

- 1/ AID DA excludes miscellaneous trust funds; includes IDCA/AID operating expenses and the Foreign Service Retirement Fund.
- 2/ OPIC does not request budget authority. Authority for loan guarantees is: FY 1984 - \$100 million; FY 1985 - \$150 million; FY 1986 - \$150 million.
- 3/ PL 480 program levels (including receipts) are: FY 1984 - \$1,825.5 million; FY 1985 - \$2,091 million; FY 1986 - \$1,680.0 million.
- 4/ Migration & Refugee Assistance included for information purposes only, as these are not included as development activities in the budget.
- 5/ Does not include callable capital for the Multilateral Development Banks.
- 6/ FY 1986: International Atomic Energy Agency, UN Environment Program, World Meteorological Organization Voluntary Cooperation Program, UN Capital Development Program, UN Voluntary Fund for the Decade for Women, UN Education and Training Program for Southern Africa, Convention in International Trade in Endangered Species, UNIDO, and UNDP Trust Fund (ICARA II).  
FY 1984 and 1985 only: World Food Program, UN Trust Fund for South Africa, UN Institute for Namibia, UN Fellowship Program, UN Institute for Training and Research, Pan American Health Organization, and UN Fund for Victims of Torture.
- 7/ For IFAD I replenishment; funded from IO&P account.

The increase is all the more impressive when account is taken of the fact that the U.S. has only recently emerged from a severe economic recession. Faced with growing budget deficits and substantial reductions in most domestic programs, foreign economic assistance has more than held its own. Indeed, it has sustained the rate of growth that prevailed during the 1970s.

Over the medium term continued strength can be expected in net ODA disbursements.

- As noted in Table C, ODA commitments have increased at an impressive pace, matching the growth in disbursements. The build-up of ODA commitments provides a full pipeline which will support a continuing strong level of disbursements.
- The United States has repeatedly reaffirmed its basic commitment to assisting the developing countries to improve their economic performance. Studies by various commissions have recently confirmed the importance of foreign aid in this process. Thus, over the medium-term, it appears likely that net ODA disbursements will remain in the range of 0.20 to 0.24 percent of the U.S. GNP.

### III. ODA Quality, Terms, and Allocation Criteria

#### A. ODA Quality

As a share of ODA commitments, loans rose from 15 percent in 1983 to 18 percent in 1984. Loans have a slightly higher grant element in 1984 over 1983 - 64.2 percent as opposed to 61.7 percent. The larger proportion of loans in the portfolio nonetheless had the effect of reducing the overall grant element of U.S. ODA commitments from 94.4 percent in 1983 to 93.6 percent in 1984. The overall DAC average, by comparison, was 91.3 percent. Table D provides a summary of recent U.S. ODA loan terms and grant elements.

#### B. ODA Terms

The terms of U.S. assistance emphasize support of the poorer developing countries. The least developed receive nearly all assistance as grants. Those countries which are economically better off, but nevertheless still poor, receive a balanced mix of concessional loans and grants. Under present legislation, the relation between per capita income and the maturity of development assistance loans is:

Table C 1  
U.S. Official Commitments and Disbursements: Program

(Millions of dollars)

Program	Calendar year											
	Disbursements						Commitments					
	1979	1980	1981	1982	1983	1984	1979	1980	1981	1982	1983	1984
<b>Official Development Assistance: Gross</b> .....	<b>5,343</b>	<b>7,793</b>	<b>6,487</b>	<b>8,891</b>	<b>*8,705</b>	<b>9,408</b>	<b>7,179</b>	<b>6,464</b>	<b>7,201</b>	<b>8,232</b>	<b>*9,464</b>	<b>10,473</b>
<b>Bilateral</b> .....	<b>4,733</b>	<b>5,019</b>	<b>5,019</b>	<b>5,546</b>	<b>*6,183</b>	<b>7,149</b>	<b>5,185</b>	<b>5,378</b>	<b>5,135</b>	<b>6,112</b>	<b>6,989</b>	<b>8,140</b>
Foreign Assistance Act, including Social Progress Trust Fund.....	3,156	3,403	3,385	4,109	4,571	5,295	3,620	3,802	3,525	4,543	5,530	5,976
Agricultural Trade Development and Assistance Act. Long-term credit sales.....	1,287	1,292	1,273	1,124	*1,261	1,443	1,213	1,269	1,253	1,236	1,053	1,832
Grants (including grant-like transactions).....	710	665	656	603	660	729	558	711	595	755	486	941
Peace Corps.....	95	98	102	101	116	110	95	102	106	107	116	119
Other, including multiple rescheduling.....	195	226	255	212	*235	302	258	204	252	166	290	314
<b>Multilateral</b> .....	<b>610</b>	<b>2,774</b>	<b>1,468</b>	<b>3,345</b>	<b>*2,522</b>	<b>2,259</b>	<b>1,993</b>	<b>1,086</b>	<b>2,066</b>	<b>2,120</b>	<b>*2,475</b>	<b>2,333</b>
Capital subscription payments.....	60	1,844	634	2,473	1,650	1,304	1,376	486	1,247	1,292	*1,569	1,304
African Development Bank.....	--	--	--	--	18	18	--	--	--	--	*11	18
African Development Fund.....	25	25	42	58	100	50	25	42	58	50	50	50
Asian Development Bank:												
Ordinary capital.....	8	15	25	5	13	13	19	25	5	(*)	13	13
Asian Development Fund.....	--	222	3	238	110	100	60	115	116	132	100	100
Inter-American Development Bank:												
Interregional capital.....	--	96	--	109	40	38	--	52	48	62	38	38
Fund for special operations.....	--	375	--	376	99	75	150	250	173	222	90	75
International Bank for Reconstruction and Development.....	2	16	33	273	80	110	16	33	147	126	80	110
International Development Association.....	--	1,072	520	1,400	1,190	900	1,072	20	700	700	1,190	900
International Finance Corporation.....	26	22	11	14	--	--	33	--	--	--	--	--
Foreign Assistance Act.....	238	381	388	343	364	396	280	77	297	303	398	452
Agricultural Trade Development and Assistance Act.	97	180	190	157	*158	177	92	146	212	182	147	202
Other.....	215	368	256	371	351	382	244	378	309	343	361	375
<b>Other Official Flows: Gross</b> .....	<b>2,680</b>	<b>3,160</b>	<b>3,043</b>	<b>3,619</b>	<b>2,714</b>	<b>3,194</b>	<b>5,036</b>	<b>3,651</b>	<b>3,242</b>	<b>3,558</b>	<b>1,173</b>	<b>2,780</b>
Export-Import Bank.....	1,769	2,302	2,400	1,892	1,858	1,464	4,216	3,086	2,926	2,311	758	1,182
Commodity Credit Corporation.....	552	150	18	--	221	159	552	150	18	52	218	167
Other, including multiple rescheduling.....	359	708	626	1,726	635	1,571	268	416	296	1,196	197	1,431
<b>Total Official Assistance: Gross</b> .....	<b>8,022</b>	<b>10,953</b>	<b>9,530</b>	<b>12,510</b>	<b>*11,419</b>	<b>12,602</b>	<b>12,215</b>	<b>10,116</b>	<b>10,443</b>	<b>11,790</b>	<b>*10,637</b>	<b>13,253</b>

\* Less than \$500,000.

• Revised from presentation in 1984 submission.

† Includes donations under section 416 of Agricultural Act of 1949, as amended in 1982, and grant-like transactions under the Commodity Credit Corporation Charter Act.

Source: Compiled by Bureau of Economic Analysis, U.S. Department of Commerce, from information made available by operating agencies.

Table 0 2  
U.S. Official Commitments and Disbursements: Type of transaction

(Millions of dollars)

Type of transaction	Calendar year											
	Disbursements						Commitments					
	1979	1980	1981	1982	1983	1984	1979	1980	1981	1982	1983	1984
<b>Official Development Assistance: Gross</b> .....	5,343	7,793	6,407	8,891	9,705	9,408	7,179	6,464	7,201	8,232	9,464	10,473
Bilateral.....	4,733	5,019	5,019	5,546	6,183	7,149	5,185	5,378	5,135	6,112	6,989	8,140
Grants.....	2,506	3,017	3,235	3,772	4,487	5,577	3,280	3,495	3,783	4,505	5,391	6,121
(of which debt reorganization).....	--	--	--	--	--	--	--	--	--	--	--	--
Grant-like.....	126	134	86	144	134	157	145	112	86	158	222	163
Loans.....	2,099	1,869	1,698	1,630	1,562	1,415	1,760	1,771	1,266	1,450	1,376	1,856
(of which debt reorganization).....	(33)	(30)	(100)	(32)	(35)	(40)	(26)	(29)	(146)	(35)	(34)	(39)
Multilateral.....	610	2,774	1,468	3,345	2,522	2,259	1,993	1,086	2,066	2,120	2,475	2,333
Amortization received.....	476	479	548	564	543	607	555555	555555	555555	555555	555555	555555
Grant and grant-like recoveries.....	182	176	157	125	81	90	555555	555555	555555	555555	555555	555555
Official Development Assistance: Net.....	4,684	7,138	5,782	8,202	8,081	8,711	555555	555555	555555	555555	555555	555555
<b>Other Official Flows: Gross</b> .....	2,583	3,160	3,043	3,619	2,714	3,194	5,036	3,651	3,242	3,558	1,172	2,780
Bilateral loans.....	2,608	2,785	2,612	3,188	2,293	2,801	5,036	3,618	3,204	3,536	1,149	2,755
(of which debt reorganization).....	(230)	(327)	(195)	(272)	(190)	(1,163)	(264)	(376)	(260)	(146)	(137)	(1,368)
Bilateral equity participation.....	72	375	431	431	421	393	--	33	37	23	25	26
Amortization received.....	1,726	2,048	2,127	2,041	2,658	2,171	555555	555555	555555	555555	555555	555555
Other Official Flows: Net.....	953	1,112	916	1,576	56	1,023	555555	555555	555555	555555	555555	555555
<b>Total Official Assistance: Gross</b> .....	8,022	10,953	9,530	12,510	11,419	12,602	12,215	10,116	10,443	11,790	10,637	13,253
Amortization received.....	2,203	2,527	2,675	2,605	3,201	2,778	555555	555555	555555	555555	555555	555555
Recoveries.....	182	176	157	125	81	90	555555	555555	555555	555555	555555	555555
Total Official Assistance: Net.....	5,637	8,250	6,698	9,780	8,137	9,734	555555	555555	555555	555555	555555	555555

Note: Data in this table, and in the accompanying table by program, are from the U.S. original submissions with minor adjustments. Data indicated \* for 1983 are revised from presentation in 1984 submission.

Source: Compiled by Bureau of Economic Analysis, U.S. Department of Commerce, from information made available by operating agencies.

July 22, 1985

**Table D**  
**Average ODA Loan Terms**  
**(Years)**

Type of loan	C a l e n d a r   y e a r							
	1983				1984			
	Grant element	Maturity	Interval to first repayment	Effective interest rate	Grant element	Maturity	Interval to first repayment	Effective interest rate
New ODA (bilateral and multilateral):								
FAA.....	62.6%	32.2	10.0	3.11%	65.4%	33.2	10.4	2.83%
ATDA.....	59.9%	33.3	8.3	2.88%	63.0%	36.1	9.6	2.80%
Total new ODA.....	61.7%	32.5	9.4	3.03%	64.2%	34.6	10.0	2.82%
Debt reorganization.....	63.9%	\$\$\$\$\$\$\$\$	\$\$\$\$\$\$\$\$	\$\$\$\$\$\$\$\$	64.1%	\$\$\$\$\$\$\$\$	\$\$\$\$\$\$\$\$	\$\$\$\$\$\$\$\$
Grand total.....	61.7%	\$\$\$\$\$\$\$\$	\$\$\$\$\$\$\$\$	\$\$\$\$\$\$\$\$	64.2%	\$\$\$\$\$\$\$\$	\$\$\$\$\$\$\$\$	\$\$\$\$\$\$\$\$

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

July 22, 1985

<u>Per Capita Income</u> <u>(1981 \$)</u>	<u>Maturity of Loans</u> <u>(years)</u>
less than 805	40
806 - 1300	25
1301 or more	20

Table E provides a breakdown of AID assistance on the basis of the recipient's per capita income level. Using the most recent IDA per capita income criterion of \$805, 57 percent of the FY 1984 AID economic assistance program was directed to the poorest developing countries. In addition, PL 480 food assistance was heavily concentrated in low-income countries. Some 80 percent of the PL 480 Title I program went to countries below the IDA poverty criterion and nearly all of PL 480 Title II assistance went for humanitarian and relief purposes in low-income countries. Thus, in total, roughly two-thirds of all food and economic assistance country programs were in low-income developing countries.

#### C. Allocation of Bilateral Assistance

The present Administration has substantially revised the procedures for allocating economic assistance. An "Integrated Budget Process" now coordinates the various ODA and non-ODA assistance programs around U.S. foreign policy objectives. Key elements of the approach include:

- Explicit establishment of a foreign policy framework setting forth key 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 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 foreign policy priorities.

Table E

AID FUNCTIONAL DEVELOPMENT ASSISTANCE,  
SAHEL AND ESF PROGRAMS  
BY ECONOMIC LEVEL OF RECIPIENT COUNTRY  
FY 1982 - 1984  
(\$ millions)

<u>GNP PER CAPITA</u>	<u>Fiscal Year</u>	<u>Total</u>	<u>DA</u>	<u>ESF</u>
Greater than \$805	1982	1,610.2	154.2	1,456.0
	1983	1,648.9	164.0	1,484.9
	1984	1,658.4	156.3	1,502.1
Between \$411 and \$805	1982	1,361.1	315.6	1,045.5
	1983	1,435.1	348.8	1,086.3
	1984	1,418.5	343.8	1,074.7
Between \$0 and \$410	1982	649.7	426.9	222.8
	1983	740.4	417.1	323.3
	1984	812.8	409.8	403.0
Subtotal, Country Programs	1982	3,621.0	896.7	2,724.3
	1983	3,824.4	929.9	2,894.5
	1984	3,889.7	909.9	2,979.8
Interregional and Regional Programs	1982	545.7	499.8	45.9
	1983	588.5	511.5	77.0
	1984	608.1	540.0	68.1
Grand Total	1982	4,166.7	1,396.5	2,770.2
	1983	4,412.9	1,441.4	2,971.5
	1984	4,497.8	1,449.9	3,047.9

U.S. interests in a region or country provide the criteria for allocating all forms of assistance. They include:

- The character of a country's overall relations with the United States;
- Access to raw materials important to U.S. industry;
- The possibility of destabilizing conflict;
- A country's position on human rights; and
- The extent of a country's efforts to acquire nuclear weapons.

Additionally, the criteria for allocation of Development Assistance to a country include:

- 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 commitment to policies that promote economic growth; and
- The country's potential for effective use of external assistance.\*

#### D. Addressing LDC Debt Problems

The United States continues its strong support for the international debt strategy set forth in the Williamsburg Summit communique and reconfirmed at the London Summit in June 1984 as the best means of addressing LDC debt problems. We believe that the combination of developing countries' adjustment, adequate IMF financing, commercial bank cooperation, emergency official financing, and economic growth in the industrial countries has proved to be an effective strategy.

#### IV. A. Public Opinion and Information

The objective of AID's public information work is to communicate AID's policies, programs and achievements to audiences in the United States and overseas. The strategy for this endeavor is focused around the four key areas of emphasis of the U.S. foreign

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\*Cf. pages 41 and 42 for allocative criteria for PL 480.

assistance program: policy dialogue and reform; institutional development; strengthening of the private sector; and technology development and transfer. This message is communicated through media relations, publications and audiovisual means.

Many Americans have a limited perspective on the size and scope of U.S. foreign assistance programs. However, awareness of foreign assistance has spread with increases in foreign travel by U.S. citizens and with international reporting by the media. This year, with the African drought and famine, U.S. development efforts have been a focus of public attention. The outpouring of American generosity has been unprecedented. American citizens have contributed over 100 million dollars to private and voluntary organizations involved in African relief. AID's Bureau of External Affairs alone has answered over 10,000 letters and queries on the African situation from individuals throughout the United States.

AID has taken a number of specific steps to improve both domestic and foreign public understanding of its goals and objectives.

For example, AID and the United States Information Agency have established a cooperative working agreement that will more efficiently communicate the message of U.S. foreign assistance to overseas audiences. In some selected recipient nations of U.S. foreign assistance, public diplomacy country strategies have been prepared to sharpen foreign audience knowledge and appreciation of U.S. aid programs. AID's development journal, Horizons, has, for the first time, been made available to developmentalists and other key leaders abroad. Efforts are underway to make the journal more responsive as a communications tool involving other donors and developing nations.

To more effectively reach U.S. audiences, AID has developed Highlights, a newsletter illustrating the economic impact of the foreign aid program in the United States. This is now circulated to over 80,000 business and community leaders in all 50 states.

#### V. Multilateral Contributions

The United States holds the strong conviction that multilateral assistance is a necessary complement to our own bilateral efforts. Reflecting this conviction, over recent years U.S. multilateral contributions, not counting substantial MDB subscriptions in callable capital, have remained about one-fifth of the U.S. economic assistance budget. In the Administration's FY 1986 budget request, this multilateral share remains roughly constant.

A. Multilateral Development Banks (MDBs)

At the beginning of the first Reagan administration, the U.S. conducted a comprehensive review of the MDBs, entitled U.S. Participation in the Multilateral Development Banks in the 1980s. This assessment concluded that the MDBs have been most useful to the United States by contributing to the achievement of our global economic and financial objectives, and also helping to advance long term U.S. political, strategic and humanitarian interests. The assessment also found that multilateral and bilateral programs of the United States are interrelated and mutually supportive. However, the U.S. determined that it was particularly important to emphasize the quality of MDB operations and their ability to catalyze both additional resource flows and changes in the policy environment in borrowing countries. The United States has devoted considerable effort, and generally has received substantial MDB cooperation, in pursuing these objectives.

Over the course of the first Reagan administration, the U.S. participated in negotiating new replenishments for all windows of the multilateral development banks (MDBs) except the African Development Bank capital window. These negotiations permitted the U.S. to begin implementing the assessment's findings. Major priorities the U.S. has maintained in replenishment negotiations have been:

- To promote the efficient and effective use of MDB resources, and thus greater selectivity in choosing projects and countries to receive those resources;
- to place emphasis on local private initiative and investment as the primary vehicles for economic growth;
- to ensure that MDB assistance catalyzes, rather than displaces, external flows of private sector resources; and
- to strengthen the capacity of the MDBs to provide sound and adequate economic policy advice as well as accompanying technical assistance.

As the second Reagan Administration completes its first year, the U.S. is reviewing the degree of its success in achieving these objectives thus far. In upcoming negotiations in the Asian Development Fund, the African Development Bank, the Inter-American Development Bank/Fund for Special Operations and the International Development Association, the United States will place special emphasis on addressing those objectives which have fallen short of full realization.

In the fall of 1985, the Administration was seeking Congressional authorization to participate in the 1985-89 capital increase of the International Finance Corporation (IFC), the 1985-87 replenishment of the African Development Fund (AfDF), and the 1985-86 Selective Capital Increase of the World Bank (IBRD). In addition to \$1,311 million already appropriated in FY 1985, during the summer Congress approved a supplemental appropriation of \$237 million to finish paying incomplete previous installments of MDB replenishments. Congress also is considering an Administration request of \$1,348 million for FY 1986.

Table F shows MDB budget levels for FY 1983-86.

#### B. Contributions to International Organizations

U.S. contributions to international organizations and programs totaled \$1.3 billion in fiscal year 1984. These figures included assessed contributions of \$574.6 million to 67 international organizations, and voluntary contributions of \$738.9 million in cash, commodities, and services to 40 international programs. Of these totals \$697.7 million was voluntarily contributed for programs in support of economic development and humanitarian assistance activities and \$96.6 million was contributed to peacekeeping operations. Our assessed contributions to international organizations in fiscal year 1984 came to 26.7% of total assessments against all Member States, while our voluntary contributions represented 27.23%

The United Nations system, comprising the UNDP, UNICEF and more than 30 specialized agencies and other entities, provides development assistance that is significant and complementary to U.S. bilateral development assistance. These international organizations help ensure that international responsibilities (such as humanitarian efforts to assist refugees, children or the needy and economic assistance and technical cooperation in the developing countries) are shared by the entire world community, not just a few nations. U.S. policy toward the development and humanitarian assistance provided through the United Nations has been one of continuous support. The U.S. remains the largest contributor to UN assistance programs.

Table F  
 Multilateral Development Banks  
 FY 1983-FY 1986  
 (\$000)

	<u>FY 1983 Actual</u>	<u>FY 1984 Actual</u>	<u>FY 1985 Actual 1/</u>	<u>FY 1986 Request 2/</u>
IBRD				
Paid-in	126,042	79,721	139,722	182,871
Callable	(1,530,276)	(983,220)	(1,723,244)	(2,105,455)
IDA	945,000	945,000	900,000	750,000
IFC	_____	_____	_____	35,033
IDB				
Paid-in	62,423	38,001	78,002	58,001
Callable	(828,138)	(806,465)	(1,655,465)	(1,230,965)
FSO	221,677	80,423	145,000	72,500
IIC	_____	_____	13,000	13,000
ADB				
Paid-in	248	13,233	13,233	13,233
Callable	(2,244)	(251,378)	(251,367)	(251,367)
ADF	131,634	100,000	191,232	130,000
AFDB				
Paid-In		17,987	17,988	17,987
Callable	(_____)	(53,960)	(53,960)	(53,960)
AFDF	50,000	50,000	50,000	75,000
TOTAL				
Budget				
Authority	1,537,024	1,324,364	1,548,177	1,347,624
Program				
Limitations	1(2,360,658)	(2,095,023)	(3,684,036)	(3,641,747)

1/ Includes \$1,311 million continuing resolution, as well as \$237 million supplemental.

2/ Authorization legislation for the IFC's 1985-89 (FY 86-90) capital increase, the AFDF's 1985-87 (FY 86-88) replenishment, and the IBRD's 1985-86 (FY 86-87) Selective Capital Increase is currently before Congress.

Table G shows voluntary contributions to UN organizations in cash from the International Organizations and Programs Account of the Foreign Assistance Act. The largest voluntary contribution for fiscal year 1984 was \$155 million to the UN Development Program (UNDP), and was followed by \$112.3 million to the UN/FAO World Food Program which includes \$2.0 million in cash and \$110.3 million in commodities and services; and \$110.9 million contributed to the UN High Commissioner for Refugees Program including five regular programs and four special programs. Only part of these amounts are included in Table G. Other major contributions were \$67 million to the United Nations Relief and Works Agency; \$52.3 million to UNICEF's regular program; \$50 million to the International Fund for Agricultural Development; \$45.3 million to the Consultative Group on International Agricultural Research, and \$38.2 million to the U.N. Fund for Population Activities.

The U.S. has encouraged UNDP programming improvements, as well as strengthened coordination efforts including improvements in the UNDP-assisted Roundtable process. The U.S. and UNICEF are cooperating to promote the use of 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 U.S. is providing special contributions of \$3.5 million to UNDP and \$7.5 million to UNICEF in FY 1985 to finance child survival activities. The U.S. is also cooperating with international organizations and other bilateral donors in both emergency and long-term efforts to alleviate the African crisis. Table G provides details of U.S. actual contributions in cash in Fiscal Years 1984 and 1985, and planned contributions for Fiscal Year 1986 from the International Organizations and Programs account. Other voluntary contributions to UN organizations funded outside the IO & P account include those to the UN Fund for Population Activities (UNFPA): \$38.0 million in FY 1984 and \$36.0 million in FY 1985.

TABLE G

UNITED STATES  
Voluntary Contributions to International Organizations  
and Programs  
(in thousands of dollars)

	<u>FY 1984</u> <u>Actual</u>	<u>FY 1985</u> <u>Actual</u>	<u>FY 1986</u> <sup>2/</sup> <u>Estimated</u>
UN Development Program (UNDP).....	\$155,000	\$165,000	\$148,500
UN Children's Fund (UNICEF).....	52,500	53,500	48,150
International Atomic Energy Agency (IAEA).....	15,814	18,414	17,015
OAS Development Assistance Programs (OAS).....	15,500	15,500	13,950
UN Environment Program (UNEP).....	10,000	10,000	9,000
World Meteorological Organization (WMO/VCP) .....	2,300	2,000	1,800
UN Capital Development Fund (UNCDF) ..	2,000	2,000	1,800
UN Food and Agricultural Organization (FAO) UN World Food Program (WFP).....	2,000	2,000	1,800
UN Voluntary Fund for the Decade for Women (VDFW) .....	500	500	450
UN Educational and Training Program for Southern Africa (UNETPSA).....	1,000	1,000	900
Convention on International Trade in Endangered Species (CITES) .....	150	200	180
UN Institute for Namibia (UNIN) .....	500	500	450
UN Trust Fund for South Africa (UNTFSA) .....	343	343	309
UN Fellows .....	449	449	-
UN Institute for Training and Research (UNITAR) .....	422	422 <sup>1/</sup>	-
UN Industrial Development Organization (UNIDO) .....	-	100	166
PAHO Revolving Fund .....	1,686	-	-
UN Voluntary Fund for Victims of Torture (UNVFVT) .....	-	100	90
World Heritage Trust (WHT) .....	-	249	224
UNDP Trust Fund to Combat Poverty and Hunger in Africa .....	-	-	1,299
International Convention and Scientific Organization Contributions .....	-	-	2,283
IFAD	50,000	90,000	-
Totals	<u>\$310,164</u>	<u>\$362,677</u>	<u>\$248,366</u> <sup>3/</sup>

<sup>1/</sup> The U.S. will deduct from its FY 1985 pledge of \$422,000, its share, 25%, of assessed monies transferred from the UN regular budget to UNITAR per GA resolution 39/177.

<sup>2/</sup> Subject to final authorization and appropriation by the U.S. Congress.

<sup>3/</sup> Negotiations for the replenishment of IFAD are still underway. When they have been completed it is likely that the Administration will request additional funds from the Congress.

## VI. Geographic Distribution of ODA

The main features of the geographic distribution of bilateral aid as reflected in data on net bilateral disbursements up to FY 1986 appear in Table H. They can be summarized as follows.

- ODA is heavily concentrated on the Middle East (this area being defined to include Egypt for present purposes). Israel and Egypt alone usually account for 35-40 percent of total net bilateral ODA from the United States. They each have on average received about five times as much U.S. ODA as the third largest recipient.
- Aid to Latin America, and more particularly to the Central American and Caribbean regions, has increased rapidly. This region ranks second.
- ODA to Sub-Saharan Africa rose modestly up to 1983. Data for 1984 however, indicate that there was a substantial rise in ODA in that year.
- Aid to the Indian subcontinent and to the rest of Asia is considerably more modest in scope.
- The U.S. is by far the largest source of bilateral DAC ODA extended to the Middle East, accounting for about three-quarters of all aid to this region. ODA takes the form of ESF cash grants to Israel and of a mix of ESF commodity imports, project aid and cash grants as well as PL 480 food aid to Egypt.
- The United States supplies nearly one-third of South and Central America's ODA receipts. The figure would be higher but for the substantial flow of ODA from France to its DOM/TOM area. The major part of the assistance extended to Central America and to the Caribbean in particular consists of ESF balance of payments support, assistance for economic stabilization, DA project aid and PL 480 balance of payments support.
- Under one-fifth of the Indian sub-continent's ODA receipts originate in the United States. U.S. flows consist of DA (mainly project aid) and PL 480 food aid loans in the case of Bangladesh and Sri Lanka; of ESF and PL 480 balance of payments assistance to Pakistan; and in the case of India of DA (mainly technical cooperation) and PL 480 food aid grants channeled through private voluntary organizations.

**Table H**  
**U.S. Economic Assistance**  
**Obligations by Major Program**  
**Fiscal Years 1979 - 1986**  
**(million \$US)**

Development Assistance Functional Accounts Plus Sahel)							PL 480 Title I						
Year	Africa	Asia	LAC	NE/E	Centrally Funded		Year	Africa	Asia	LAC	NE/E	Centrally Funded	
					Programs	Total						Programs	Total
1979	248.3	397.8	246.5	42.6	257.1	1,192.3	1979	82.7	273.4	72.5	312.8	43.6	785.0
1980	268.0	392.3	257.0	34.3	256.3	1,207.9	1980	140.0	280.7	93.6	352.8	0.0	867.1
1981	300.3	397.2	233.3	61.2	282.0	1,274.0	1981	147.4	195.2	82.2	368.6	0.0	793.4
1982	328.9	400.3	280.8	39.4	346.7	1,396.0	1982	124.0	149.0	126.6	320.0	73.0	792.6
1983	315.3	392.2	328.9	43.7	361.2	1,441.3	1983	144.1	167.5	193.4	290.5	54.0	849.5
1984	340.0	392.0	295.3	51.8	400.8	1,480.3	1984	127.0	183.0	180.5	313.0	47.0	850.5
1985	353.2	442.1	507.4	58.6	485.0	1,846.3	1985	184.5	209.5	228.5	285.0	198.5	1,106.0
1986	357.8	391.0	460.9	52.2	414.1	1,675.9	1986	162.5	211.0	216.0	260.5	180.0	1,030.0

  

Economic Support Fund							PL 480 Title II						
Year	Africa	Asia	LAC	NE/E	Centrally Funded		Year	Africa	Asia	LAC	NE/E	Centrally Funded	
					Programs	Total						Programs	Total
1979	53.0	0.0	8.0	1,881.3	0.2	1,942.5	1979	87.1	192.8	63.3	56.2	149.8	549.2
1980	132.7	22.0	15.2	1,988.2	0.1	2,158.2	1980	153.3	256.3	58.9	40.3	209.3	718.1
1981	163.0	32.0	143.4	1,860.0	0.9	2,199.3	1981	174.7	289.0	90.7	56.2	0.0	610.6
1982	294.8	155.0	328.9	1,991.1	0.5	2,770.3	1982	84.6	236.4	59.8	84.4	155.8	624.0
1983	286.1	255.8	500.4	1,929.1	0.1	2,971.5	1983	95.2	215.2	76.2	57.9	155.0	599.5
1984	333.1	280.0	464.1	2,063.7	5.2	3,146.2	1984	144.3	158.8	59.9	47.1	329.9	740.0
1985	424.5	345.0	957.0	2,469.2	7.0	4,212.8	1985	203.9	127.8	38.3	37.1	392.8	800.0
1986	461.5	351.0	833.0	1,177.0*	1.5	2,824.0*	1986	62.4	129.3	41.3	16.0	401.0	650.0

Note: Figures through FY 1984 are actual obligations, while those for FY 1985 are AID's estimates as of February 7, 1985 and those for FY 1986 are budget requests.

\*Not including funds for Israel

- United States aid to Sub-Saharan Africa is less than 15 percent of that region's total receipts and takes a variety of forms. DA (project and technical assistance) is the larger component both as regards the number of recipients and total volume. ESF, on the other hand, whose volume is close to that of DA, tends to be concentrated on a smaller number of recipients and is extended either for balance of payments support or as part of the African Economic Policy Reform Program (AEPRP) (formerly referred to as Economic Policy Initiative for Africa, or EPI). Balance of payments support is also extended under PL 480 Title II food aid grants to almost all African countries. Some of the larger recipients, such as Kenya, Somalia, Sudan and Zimbabwe, generally receive assistance under all three major bilateral programs. In addition to "normal" aid, Africa was a major recipient of emergency food aid in 1984.
- Finally, the U.S. is a relatively more modest source of assistance to Asian countries other than those of the sub-continent (less than 10 percent). The principal recipients are the Philippines (ESF, DA and PL 480 loans) and Indonesia (DA and PL 480 loans).
- Data on actual and planned commitments through FY 1986 suggest that the current distribution is likely to persist for some time, and possibly become accentuated. Aid to the Middle East will in all probability remain by far the largest component of bilateral ODA, although its volume is difficult to assess until the size of the Israel program for FY 1986 is determined. Aid to Latin America (and especially to Central America and the Caribbean) will most likely show the fastest rate of growth, while ODA to Sub-Saharan Africa as presently planned is likely to level off to more normal levels following the upsurge in emergency assistance in FY 1985.

## VII. Adapting Aid Policies to Policy Reform and Structural Adjustment Efforts of Developing Countries

### A. Short-term Economic Stabilization Programs

In response to the recent stabilization efforts of developing countries in the face of world recession and widespread foreign debt servicing problems, the U.S. is pursuing a two tier strategy. On the one level the U.S. actively supports the implementation of the case-by-case approach of dealing with

these problems. This approach includes: effective adjustment by the country, IMF advice and temporary balance-of-payments financing, continued commercial lending, broad international economic recovery, and bridge financing. While there still are particular countries with problems, overall this approach has proved effective and sufficient, and should continue to be so, in overcoming any crisis.

At another level, the U.S. in its own assistance programs has provided, and will continue to provide selectively, financing for stabilization efforts and balance of payments support. The greatest recent increases in U.S. foreign assistance have come in forms (non-project) that allow such uses. Even within specific projects the financing of local costs gives indirect help to meeting foreign exchange needs. Projects also often promote exports or import substituting activities which help to relieve balance of payment pressures.

B. Policy Reform Within the Context of Medium and Longer Term Structural Adjustment/Development Efforts

A basic objective of the U.S. in its assistance is the promotion of broadly based, self-sustaining economic growth in developing countries. To achieve this economic growth, policy reform is usually a key element in medium and longer term structural adjustment/development efforts; frequently it is a fundamental prerequisite. The U.S. in its dealings with recipient countries and in its aid procedures and documents, pays particular attention to policy issues. The overall strategy statement for the role of U.S. assistance in each country's development includes treatment of the policy environment and reform needs. In the selection and design of every project relevant policy issues are addressed. To the extent consistent with its other objectives, and within the constraints and lags of its programs, the U.S. strives to adjust as appropriate the total, the forms and specific activities of its assistance in response, among other things, to recipient countries' policy reform and structural adjustment efforts.

VIII. AID Coordination and Other Donors

The U.S. continues to attach great importance to improving aid coordination. This emphasis is evident not only in-country but also in U.S. relations with the UN development agencies and the development banks. The United States participates actively in

virtually all country and regional aid coordination groups. Thus, the U.S. has sought to expand the effectiveness of these mechanisms by giving greater attention to better tailoring aid to support investment priorities, policy reform, and improved program implementation.

While progress can be noted in a number of developing countries, much remains to be done in attaining the degree of coordination needed to ensure aid effectiveness. The U.S. believes greater efforts are needed to reach donor/recipient agreements on investment priorities and aid programs that support economic growth and development objectives. Multilateral institutions have key roles in coordination. The IBRD's resources and abilities are unique in this respect. While it now usefully contributes to structural adjustment and policy reform goals of mutual donor/recipient concern, the Bank can lend even greater strength to coordination efforts. The U.S. also has urged increased attention to coordination issues by the regional multilateral development banks and explored with the UNDP ways of making the Roundtable consultative process a more effective coordination mechanism.

Extensive bilateral consultations with DAC donors and multilateral institutions have been held both in Washington and in other donor capitals complementing the numerous instances of in-country coordination discussions between U.S. AID missions and local donor representatives. U.S. officials have visited donor capitals to review the Caribbean Basin Initiative (CBI) and the African Economic Policy Reform Program (AEPRP).

It is highly important that all donors be well informed of each others' efforts and the U.S. has sought to share information and experience on its programs and aid approaches with other donors.

The following are examples of recent efforts undertaken by the U.S. to improve aid coordination.

Environment: In June 1985 AID hosted a meeting in Washington of DAC donors to discuss ways of better integrating environment and natural resource concerns into aid programs. Seven DAC donors took part in these discussions. The U.S. will continue to work through the DAC and directly with other interested donor agencies to expand collaboration on environmental problems.

Food Aid - The U.S. has continued frequent bilateral and multilateral consultations regarding African food emergency needs. For coordinating donor responses, the U.S. has looked

to the UN for leadership, and welcomed the establishment of the Office of African Emergency Assistance and enhanced in-country UN representation. Regarding the longer term perspective on African food requirements, the U.S. initiated discussion at the Bonn Economic Summit of proposals for a "Green Revolution for Africa" which would involve a central role for IBRD. The U.S. also has supported improved food monitoring as a means of enabling donors to respond more effectively to emergency situations.

The United States joined with Canada and the European Community in funding a study on improved information sharing and consultation among major food aid donors. A meeting with EEC and Canadian food aid representatives was held in Washington to exchange information on food aid operational experience and planning activities. The need for greater standardization in food assessments and reporting was also addressed. The U.S. shared with the other donors a draft methodology for in-country assessments. This meeting provided a further opportunity to consider various urgent African requirements and donor responses including coordination arrangements.

Arab Donor Coordination - To strengthen relations between AID and the development funding agencies and organizations of Arab countries, the position of an Assistant Administrator for Arab Donor Coordination has been established in AID. The Coordinator is charged with working with AID geographic bureaus and overseas missions to identify projects and program priorities where greater involvement of Arab donors will strengthen AID's ability to achieve its objectives. AID is currently cooperating with various Arab institutions on projects in Yemen and Tunisia.

Publication Exchange - As part of the ongoing effort by DAC Members to enhance communications, DAC donor agencies were invited to participate in an information exchange with AID. Copies of AID information publications and news releases are being provided to all DAC donors to keep them informed of major AID developments. To increase the dissemination of lessons learned in the field (as part of an effort to share common development experiences) AID has offered to include articles by other donors in its publications. The extensive documentation on U.S. development assistance programs contained in the AID Presentation to Congress is provided each year to all DAC donors.

Coordination in Africa - In no other region is the need for coordination greater, and the cost of poor coordination higher, than in Africa. The following are examples of major U.S. steps to improve aid coordination in Africa.

Collaboration with the UNDP - The U.S. has consulted closely with the UNDP on improving the roundtable format and is committed to close collaboration with the UNDP to support the new system. The U.S. is collaborating with the UNDP for the implementation of the new roundtable process in Mali and Rwanda. This support will probably vary somewhat in each country, but may include:

- Substantial consultations between AID and UNDP field representatives on ways to improve coordination;
- sharing of analytical studies;
- analytical support from AID where its research agenda coincides with UNDP's needs, particularly at the sectoral level;
- examination of ways to integrate into the roundtable process AID's projects which support the host country's policy analysis and planning;
- closer contacts between UNDP and AID headquarters; and
- collaboration on evaluation of experience.

Coordination Efforts at the Country Level: The U.S. believes that the host government has the central role in aid coordination. We also recognize, however, the limited capacity of many African governments to take on this role. In response to these limitations, programs have been launched to strengthen the governments' capacities to coordinate aid.

Kenya: A program was initiated in Kenya in 1983 and became fully operational in 1984. AID provided a \$2.0 million grant for technical assistance in conjunction with a \$28 million AID structural adjustment program grant. The technical assistance grant was designed to help the Ministry of Finance and Planning to develop and implement a system for improved economic management and budget analysis for donor-financed projects. A management information section was established in the Ministry to carry out these and other tasks. (A U.S. firm donated computers to the information section). A joint task force of AID, UNDP and host government representatives was formed in 1984 to advise the management information section on matters related to donor coordination and budgeting. An automated, government-run data base on donor project and non-project assistance has been established. This data base is the key to coordination in Kenya where more than forty donors support over 600 projects.

Sudan: The U.S. is funding similar efforts in Sudan. Currently, two AID-financed consultants are assisting the Government of Sudan with the recording of donor activities. We expect that the automated information system will be completed in Sudan before the end of this calendar year.

Sector Level Coordination: The U.S. is also supporting improved in-country sector level coordination. The start of a process of local sector coordination for desertification control has begun in Niger. A master plan has been developed with the aid of CILSS and Club du Sahel financed by an AID grant. Donors and the government have discussed setting up a means of permanent coordination in support of the plan's execution. Burkina Faso and Mali are also developing master plans for desertification control and preparing for discussions with donors similar to that held in Niger.

Information Sharing: There has been substantial progress over the past year in sharing information and analytical studies with other donors, particularly in the area of government policies. Efforts in Niger are noteworthy; AID provided necessary inputs in shaping the IMF's supply-oriented policy recommendations in agricultural pricing and marketing reform measures contained in the second stand-by agreement (1984-1985). The IBRD's policy dialogue effort has also benefited from AID's experience in the design of the Niger Agriculture Sector Development Grant (ASDG). The policy measures outlined in the ASDG will be one of the conditions for the SAL in the area of agricultural policy reform. The IBRD's global policy dialogue approach should also help AID in planning its future policy action in Niger.

AEPRP: In the design of the African Economic Policy Reform Program, the U.S. has consulted with DAC donors and IBRD. The four country programs for initial funding under the AEPRP have been closely reviewed with IBRD to ensure complementarity with Bank efforts. In some cases the U.S. program is an integral part of a Bank program. The U.S. has worked very carefully with IBRD regarding Zambia in designing AEPRP support for agricultural market liberalization. The U.S. effort in Mali is part of a multi-donor structural readjustment program led by IBRD and it is expected that the U.K., FRG, and Japan will join AID in this program. The AEPRP program in Mali builds on extensive technical assistance and studies conducted by other donor agencies particularly IMF and UNDP.

### Coordination in Asia

Coordination mechanisms in Asia are long established and can serve as models for other regions. Examples of recent progress with aid donor coordination in the Asia include:

Philippines - The established U.S. working relationship with the World Bank and the IMF on the Philippines was intensified because of the economic crisis over the course of the past year. The U.S. collaboration with other institutions clearly had a constructive impact on the GOP's comprehensive policy reform action plan.

Nepal - The U.S. concluded a cofinancing agreement with the World Bank for the Institute of Agriculture and Animal Science.

Pakistan - The U.S. policy dialogue's efforts in the energy sector are being closely linked with those of the World Bank. There is close and continuous consultation on energy pricing and other policy issues in the sector.

The poppy eradication effort in Pakistan has become a multilateral effort with the establishment of the GOP's multilaterally funded Special Development and Enforcement Plan (SDEP).

### Coordination in Latin America

In addition to consultations on the Caribbean Basin Initiative previously cited, AID is cooperating with other donors in a number of areas. For example, AID has consulted on its 1985-1990 education action planning for Honduras with IBRD and IDB. It was AID's desire to share with other major international donors the outcome of this effort and to identify areas where commonalities of interest exist in various LDCs in the region. AID is undertaking a series of projects aimed at improving development administration public sector management (such as tax improvement) and agricultural sector policy analysis, etc. Other donors especially IBRD and the IDB will be closely consulted in this exercise. The U.S. has encouraged IBRD to reestablish a consultative group for Peru and offered to support the Bank in preparatory work on economic analysis and policy recommendations.

## IX. Technical Cooperation

### A. Agency Policies and Recent Initiatives

Technical cooperation represents an important component in each of four elements of AID development assistance: policy dialogue and reform, institutional development and training, reliance on the private sector and market forces, and technology generation, adaptation and transfer. It is especially important in the context of institutional development, however.

AID provides technical assistance in a variety of fields through designated Mission staff (such as Agriculture and Rural Development Officers, Nutrition Officers, Health Officers, et cetera), through field-based Regional Advisors and Washington-based Technical Resource Officers of Regional Bureau staffs and through technical experts in the Bureau for Science and Technology. In addition, AID routinely enlists the services of specialists from a large number of other U.S. Government agencies and organizations such as the U.S. Department of Agriculture and the Peace Corps, from developing countries, from multilateral donor agencies, from private voluntary organizations, from the academic community and from private sector firms.

These individuals with expertise in such diverse areas as agricultural production and crop protection, forestry, health and population, education, energy, economics and finance, social marketing, media production, service delivery and program design and evaluation work with developing country counterparts on a wide variety of projects and programs, many of which include substantial capital assistance as well. Examples of diverse sources and applications of technical expertise in AID projects include:

- The Kenya Private Enterprise project, which provides technical assistance to local commercial banks, enabling them to expand their business advisory services in rural areas,
- the Pest Management and Related Environmental Protection project, which supplies entomologists, plant pathologists and other specialists to advise Missions and host country agricultural extensionists on specific pest problems as well as sponsoring international workshops to promote information exchange among developed and developing country scientists, regulatory officials and policymakers,

- Project Sustain, which provides experts from U.S. food processing companies to help develop and improve counterpart companies in LDCs,
- the Africa Private Enterprise Fund which provides economic, business and management consultants to mobilize private enterprise to improve food production and increase income and jobs,
- the Conventional Energy Assistance project which supports a range of technical assistance and research activities to assist LDCs in the assessment, development and utilization of fossil fuel reserves, and
- projects in a large number of countries to improve logistics, supply management and commercial marketing of contraceptive commodities as well as to assist in implementation of national population policies.

In addition to direct involvement through projects such as these, AID supports a number of other organizations which provide technical assistance, such as Appropriate Technologies International (ATI) the Volunteers in Technical Assistance (VITA), Private Agencies Collaborating Together (PACT) and the World Wildlife Fund (WWF). AID also provides technical assistance to supplement capital resources provided by the private sector and multilateral development banks.

## X. Aid Management

### A. Aid Organization and Management

To improve the management of the AID program and meet the challenges and pressures resulting from a reduction in operating expenses, AID has taken some significant new management initiatives over the last year. Most importantly, a process of decentralization of authority to the overseas missions which was begun 4 years ago has been expanded and refined. This action redefines the relationship between geographic bureaus and their field missions. Under the system, responsibility for program and project design and implementation now rests entirely with the missions, with the exception of projects that are unique because of policy implications, magnitude or sensitivity. Headquarters oversight responsibilities are fulfilled by program and portfolio reviews and operational assessments. At regular intervals "program weeks" are being held during which representatives from each field mission come to Washington to review past program

performance, and discuss and negotiate a development strategy and work plan for the future. In addition, senior staff from Washington assess a mission's operational and managerial effectiveness approximately once every three years. These reviews focus on decision-making processes, program implementation, personnel issues, contracting, procurement, financial systems, automated data systems and other issues. Essentially, these changes will move the responsibility and authority for the program to the field where the action is. The role of AID Washington staff will be to set policy, negotiate strategies, provide support and oversight services to missions, and assure managerial accountability.

The AID Administrator on the advice of a task force of senior AID managers has restructured some of the Washington bureaus in order to effectively implement the changes in the programming processes with reduced staffing and to accommodate an austere operating budget which requires a reduction of about 250 of AID's employees by the end of FY 1986. Two bureaus have been merged--Asia and the Near East--numerous structural changes combining offices within bureaus have been made, non-critical functions and redundant systems have been eliminated, a hiring freeze has been imposed, and some non-essential services have been reduced or abolished. Staff reductions will be accomplished through attrition. The majority of the positions to be eliminated will be in Washington. These changes are planned to make the operations to AID more efficient and cost effective.

#### B. Recurrent Cost Financing

Recurrent costs are those which continue over the life of a project, as opposed to fixed costs which are concentrated in its initial stages. Many developing nations, in particular the poorest ones, find themselves unable to finance the recurrent costs of their development investments, thereby making them unproductive and endangering the expectations of being able to take advantage of future investment opportunities. In general, neither AID nor other donors make provisions for the long-term financing of recurrent costs.

However, AID believes that overinvestment which saddles a nation with an onerous recurrent cost burden must be avoided. Instead, careful provisions should be made to minimize these costs and assure that sufficient revenues, usually generated by the project being undertaken, are generated to cover recurrent costs. Aid will occasionally engage in the funding of recurrent costs on a

temporary basis, never to exceed ten years, if requisite steps are being taken to permit the phasing in of an appropriate mechanism for host country shouldering of these costs. This will usually involve appropriate policy reforms and specific revenue generating provisions which require time to put into effect.

### C. More Flexible Forms of Assistance

In recent years the nature of development assistance needs has shifted somewhat. High energy prices, depressed primary commodity export prices, drought, and heavy debt service requirements have increased the relative need for fast disbursing assistance with high balance of payments impact. Moreover, in this changing environment, appropriate economic policies are all the more important. Reflecting this, the proportion of non-project assistance in our program has been rising. Sometimes called program assistance, this category of highly flexible assistance includes cash transfers, budget support, sector assistance, and commodity import programs. To the maximum extent practical we endeavor to design non-project assistance within the context of an ongoing policy dialogue with the recipient government and to firmly link such assistance to concrete policy reforms. USG non-project assistance has been running in the neighborhood of \$3 billion, or some 60% of our bilateral economic assistance program.

In addition, we have also been increasing the amount of U.S. funded local cost financing associated with our projects. Such purchases of local currency are a substantial portion of our project expenditures and have a direct positive impact on the recipient country's balance of payments.

### D. Development Information and Evaluation

AID has now firmly established its Center for Development Information and Evaluation (CDIE) in the Bureau for Program and Policy Coordination. This joining of AID's evaluation and information functions represents an important step in the effort to apply the lessons of experience in the design and implementation of AID programs. The findings from evaluations joined with a computerized development information system containing some 40,000 project papers, evaluation and technical reports greatly increase the resource base on AID and other donor experience.

Along with this new dimension in applying development experience, AID is also strengthening its system for program and project evaluations. The Administrator has stressed in a special message to AID's overseas missions the importance of evaluation as an integral part of a program managers' responsibilities. A new

up-to-date handbook on project evaluation will be completed by Fall 1985. Special guidelines are now available for evaluating non-project assistance. AID's geographic and central bureaus are expanding the work of their evaluation units. The USAID missions are preparing annual evaluation plans which are now monitored by AID's CDIE in a central computerized data system. AID also is undertaking crosscutting reviews of all evaluations carried out during the past year to identify patterns of findings and recommendations. In addition, AID is expanding its support services in data collection and analysis to improve the basis for project design, monitoring and evaluation.

To improve the application of evaluation findings and in general the use of AID and other donor experience in development programs, AID through CDIE is:

- Building up the capacity of its research and reference services and document distribution activities. (This service handled over 12,000 requests for development information during the last fiscal year.)
- Developing a computerized project managers' reference system to provide program design and implementation staff, particularly in the developing countries, with a convenient, comprehensive summary of AID experience in sectors of primary interest.
- Providing a four page development experience abstract for quick reading by busy program managers.
- Holding periodic workshops and conferences to review and disseminate the conclusions of evaluation studies.

AID is continuing its special program impact and policy evaluations. Subjects now under active review include program management, health service delivery, technology transfer in agriculture, health/population and renewable energy, agricultural education, research and extension, small farmer credit, small scale enterprises participant training, Women in Development and country program impact.

AID continues to be an active supporter of the DAC Expert's Group on Evaluation. It has assisted the group, for example, with the recent DAC reports on "Lessons of Experience Emerging from Aid Evaluation" and on "Evaluation Methods and Procedures: A Compendium of Donor Practice and Experience".

## XI. Associated Financing Policies and Practices

AID has two Associated Financing (AF) programs: a program designed to match financial offers made by foreign competitors of U.S. exporters, and a program that provides concessional and non-concessional finance to LDC intermediate credit institutions. Both of these programs are consistent with the DAC Associated Financing Guidelines.

### A. AID Tied-Aid Credit Programs

1. The Egyptian Trade Financing Facility (TFF) was created in 1981 and under special circumstances draws from the U.S. Commodity Import Program for Egypt. Its purpose is to match mixed-credits offered by foreign competitors of U.S. exporters. The TFF operates alongside the more comprehensive Tied Aid Credit described below. Under the TFF, AID grants can be combined with export credits provided by ExIm Bank and/or with private funds. Contracts to be financed, which must be jointly approved by AID and the Government of Egypt, are identified by the U.S. exporter or by the Government of Egypt. AID then proceeds to appraise and approve projects according to its regular program procedures. AID requires that the supplier must be selected by international competitive bidding and that the transaction be consistent with the AID Mixed-Credit Guidelines.

2. The AID Tied-Aid Credit Program was established in response to the Trade and Development Enhancement Act of 1983. The program is to be used for defensive purposes, when a U.S. firm is the low responsive bidder and stands to lose a contract because of predatory financing offered in support of a foreign competitor. Funds to finance U.S. exports are limited to Economic Support Funds (ESF). In addition, there must be a reasonable expectation that the U.S. exports will contribute to the development objectives of the importing country and must be consistent with the economic security and political criteria used to allocate ESF. In FY 1985 \$181.5 million was available in CIP programs for the Tied Aid Credit Program.

### B. Program for Venture Capital

Since late 1981, when AID's Bureau of Private Enterprise was established, AID has been running a program to fund venture capital or intermediate credit facilities in developing countries. For this purpose, AID extends loans at or near market terms out of which debt and equity capital can be provided to small- and medium-sized LDC enterprises. These OOF loans are non-export credits with a grant element lower than 20 percent.

They are often combined "in law" with AID technical cooperation grants, but not with export credits. The combination is Associated Financing as defined by the DAC Guiding Principles. Five such packages were reported for 1984, one above the number for 1982.

### C. Cofinancing Arrangements with Private Sector Institutions

Cofinancing development projects together with other bilateral or multilateral official institutions has been a long-standing AID practice. A major aspect of AID's interest in cofinancing has been the potential it offers to encourage the participation of the private sector, both indigenous and foreign, in the development process of developing countries' economies. All countries receiving aid are now eligible for cofinancing arrangements under appropriate circumstances.

Projects to be financed, normally in the form of parallel financing, are appraised and approved by AID under its regular procedures which take into account the development plans of recipients. The appraisal also includes an attempt to establish whether cofinancing is the appropriate financing method for a given project. Normal AID procurement restrictions and tying regulations apply, but local cost financing is possible and is decided on a case-by-case basis.

### D. Measures Taken to Aid Domestic Employment and Exports

No specific programs or measures have been taken to support U.S. exporters or to encourage domestic employment. There are no specific budgetary appropriations to aid special domestic regions, industries or other special interests.

## XII. Procurement Policies and Practices

### A. Procurement Policies and Tying Arrangements

#### 1. Procurement Policies

AID's primary requirements for purchasing and shipping the commodities that it finances concern:

- Suitability - Commodities must be effective, safe, and supportive of economic development. Commodities such as military and police equipment, abortion-related items, luxury goods and the like may not be financed.
- Competition and Price - Advertising and competitive procedures must be used to obtain the most advantageous competitive price available.

- Source and Origin - Commodities must be produced in and shipped from eligible countries. For commodities financed from Economic Security Funds, this likely means the United States. However, for Development Assistance loans and for grants to the relatively least developed countries, the developing countries of the free world are also eligible sources.
  
- Nationality of Suppliers and International Carriers - The nationality of suppliers and the flag registry of ocean vessels and air carriers must be that of eligible countries.
  
- Cargo Preference - Not less than 50 percent of the gross tonnage of AID-financed commodities transported on ocean vessels must be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates for U.S. flag commercial vessels. Additionally, at least 50 percent of the gross freight revenues generated by liner services must be generated by U.S. flag commercial vessels.

## 2. Tying Arrangements

The basic policy in the Foreign Assistance Act of 1961, as amended, is to require procurement from the United States. Under certain circumstances, however, other sources may be used when necessary or appropriate. In accordance with Presidential and administrative determinations, AID has untied some of its assistance agreements to allow procurement from the developing free world countries as well as from the United States. The type of agreements for which current policy authorizes such untied procurement are: (1) grants to the relatively least developed countries and (2) development assistance loans.

### B. Description of How AID Procedures Assure That LDC Recipients Receive Reasonable Prices and Quality Under AID-Financed Procurement

AID has published rules concerning prices that may be charged under AID-financed sales. The basic requirement imposed on the host country is that no more than a reasonable price may be paid for any commodities or services financed in whole or in part under AID loan or grant agreements. For commodities and construction services, this requirement will be considered to be met when the purchaser accepts the most advantageous competitive offer, price and other factors considered, such as quality delivery time, transportation costs, payment terms, and

availability of spare parts and repair services, or when, under a formal competitive procurement, the purchaser accepts the lowest responsive and responsible bid. For technical services, since competition is based on technical qualifications rather than price, cost analysis would be used to determine the reasonableness of price.

AID also has some very specific price tests that apply to suppliers of commodities. Commodity transactions are reviewed by AID after payment to determine whether prices charged exceed the prices allowable. If so, AID will issue a bill for collection to the supplier requesting refund of the amount of overcharge. Refunds received are reprogrammed to the loan or grant.

In order to help assure that the items purchased are, in fact, what the host country purchaser needs, AID works with purchasers as requested to develop and refine the specifications which will be used. When a wide variety of equipment and materials will be needed for a project, an appropriate firm may be hired to help develop the requirements and the specifications. Having good, detailed specifications that suppliers must conform to and providing for inspections, as appropriate, assures that acceptable quality products are purchased.

### XIII. Sectoral Orientation of AID

#### A. Aid for Agriculture and Rural Development

The objectives of U.S. food and agricultural assistance are to enable countries to become self-reliant in food, assure food security to their populations and contribute to broadly based economic growth. To accomplish these objectives, four inter-related policy elements are emphasized.

1. Improve economic policies in the developing countries to remove constraints to food production, marketing and consumption;
2. Develop human resources and institutional capabilities in the developing countries and conduct research on food and agriculture problems;
3. Expand the role of developing country private sectors in agricultural and rural development and the complementary role of the U.S. private sector in assisting this expansion; and

4. Employ all available assistance instruments in an integrated manner, including provision of PL 480 food aid in a way that contributes to the other three elements as well as meeting food security and nutritional needs. (See Section B.1. below.)

Agriculture, rural development and nutrition activities continue to absorb the largest portion (47 percent) of the Functional Development Assistance account. Estimated resource allocations for FY 1984-86 are indicated by region in the following table.

<u>REGION</u>	<u>FY 1984</u>	<u>FY 1985</u>	<u>FY 1986</u>
Africa	\$138.6	\$133.0	\$155.3
Asia	268.4	273.7	271.7
Latin America/Caribbean	154.6	173.1	188.7
Near East	21.3	28.5	26.7
Central Programs	<u>140.1</u>	<u>152.4</u>	<u>150.0</u>
TOTAL	\$723.0	\$760.7	\$792.4

In FY 1986, AID expects to continue the Caribbean Basin Initiative, which should have a positive impact on agricultural growth. It also plans to continue its concern for policy reform in the agriculture sectors of recipient countries, including the establishment of appropriate prices for agricultural commodities. The Agency has refined its program for Africa to concentrate the resources supporting agricultural research and university building toward fostering a "Green Revolution" for Africa. A policy has been set for assistance in agricultural technology dissemination that emphasizes the complementarity of traditional and nontraditional approaches; and a significant new investment is being made in biotechnology research.

## B. Food Aid Policies

### 1. Food Aid in Development Assistance

U.S. policy encourages the integration of food aid with other available aid instruments to increase recipient countries' economic development. Because food can directly save lives, food aid retains a special humanitarian character as well. The following discussion relates primarily to provision of food aid in non-emergency situations.

To the fullest possible extent U.S. food aid is programmed and administered in accordance with the strategy governing all other U.S. assistance. The programming emphasizes:

- Promoting needed economic policy reforms;
- strengthening the private sector and the use of the market to allocate resources;
- contributing to institutional development; and
- helping to develop and apply appropriate technology.

In addition to its direct contribution to meeting a population's nutritional needs, food aid is a resource transfer. As a resource transfer it helps give developing country decision-makers the margin often needed to institute important policy reforms. Food aid is particularly effective in helping promote dialogue and reform in agriculture and agricultural marketing as it directly addresses the concerns of key decision makers in these sectors. For example, well designed food aid programs can provide a temporary cushion for the poor when needed adjustments to self-sustaining market prices increase the food prices facing consumers. Food aid can be used to support private sector development through its transportation, storage and distribution. U.S. food aid is, by law, given only when it does not act as a substantial disincentive to agricultural production and marketing in the recipient economy and when sufficient capacity exists to enable the food to be transported, stored and distributed.

The way food aid is programmed and administered recognizes that increased purchasing power through increased productivity and incomes is an essential component of development. Programs to increase nonfarm production are therefore important adjuncts to our agricultural development effort. The U.S. supports a variety of agricultural and non-agricultural development programs by programming with the recipient government the local currency equivalent of the resource transfer represented by food aid.

Targeting of food aid to particularly needy individuals and families is accomplished in many ways, including its use in food-for-work programs, and by making it part of nutrition education programs and activities aimed at the particularly vulnerable groups such as infants, pregnant women and lactating mothers. Targeted food distribution is often combined with family planning, health care, and community development activities.

There are, of course, constraints to increased integration of food aid and non-food aid resources. There is sometimes a reluctance on the part of the host government to depend on a resource whose availability is not always certain or stable from year-to-year. The actual transfer of local currency to those entities charged with implementing specific agreed upon activities is not always timely. Finally, the timing of the resource flow is less flexible in the case of food aid than non-food assistance, and therefore its phasing with other development activities becomes more difficult.

## 2. Criteria Used For Determining the Level of Food Aid

Most U.S. food aid is provided under Public Law 480. Although this law and others establishing the legal framework of U.S. agricultural policy are being reviewed this year, the basic framework will probably remain unchanged. Title I of the law, provides credit financing to friendly governments for the purchase of agricultural commodities in the U.S. that the Secretary of Agriculture determines are available. These credits are repayable in dollars. Recipient countries must agree to undertake self-help measures aimed, where appropriate, at expanding food production and improving food storage and distribution facilities. A major concern is that concessional sales of U.S. farm products do not replace commercial exports from the U.S. or other friendly countries.

Food aid is also provided under Title II of the Act on a grant basis to benefit needy people. The grants may be administered through private voluntary organizations (PVOs), the World Food Program (WFP), or under direct government-to-government programs. Like Title I food aid, such grants are provided only when adequate storage facilities are available and when distribution of the food aid will not result in a substantial disincentive to the recipient country's own production or interfere with its food marketing system. These safeguards are written into the authorizing U.S. law.

Current legislation mandates that at least 1.7 million tons of food assistance must be provided annually under Title II.

Food for development programs authorized under Title III (but financed under Title I) offer special incentives to low-income countries to undertake additional development programs for full "loan forgiveness" to the extent that the commodities or the local currency equivalent are used for development purposes agreed upon by the U.S. government. In many cases these are

related to changes in policies designed to improve the quality of life of the poor, particularly in rural areas. Title III agreements may include supply commitments of up to five years, subject to annual review and the availability of commodities and appropriations.

At least 75 percent of the volume of Title I food aid must be allocated to countries eligible for assistance from the International Development Association (IDA). Eligibility for Food for Development (Title III) programs is limited entirely to IDA-eligible countries.

The following table shows how Title I and Title II food aid has been allocated during FYs 84-86.

	<u>Title I (\$ millions)</u>		
	<u>FY 84 Actual</u>	<u>FY 85 Estimated</u>	<u>FY 86 Currently Planned</u>
Title I Sales	803.5	1011.9	950.0
Freight Differential/ Financing	69.5	114.0	108.5
Of which Title III constitutes	98.0	109.5	179.0
	<u>Title II (\$ Millions)</u>		
Commodities	522.2	697.8	425.6
Transport Costs	218.0	502.1	224.4

### 3. Targeting Food Aid to Special Groups

An important objective of U.S. food and agricultural development assistance is to help recipient countries develop agricultural production and establish competitive markets that provide a stable supply of low cost nutritious foods to the majority of the population. Unfortunately, production has lagged far behind needs and the normal free market mechanism for the distribution of food and the alleviation of hunger is underdeveloped and simply inadequate as the sole mechanism in many poor countries. On the other hand, massive direct feeding programs are likely to lead to dependency and at the same time

require administrative capability and costly physical infrastructure (including transportation and storage facilities) far beyond what is attainable in the foreseeable future as regards food aid. This dilemma has led to the use of various modified market approaches and direct food distribution programs to reach those whose needs would not otherwise be met.

Modified market approaches use market mechanisms for food distribution but with certain interventions or constraints. Examples include intermittent open market sales of public food stocks to guard an economy against seasonal price variations; specially licensed ration or "fair price" shops in both the public and private sectors which sell food at subsidized prices; food stamps or similar money substitutes given to low income families to purchase specified foods at reduced or no cost; and the use of self-targeting foods--those which have a high income elasticity of demand among poor people but a low or even negative income elasticity of demand among wealthier groups.

However, modified market approaches may not reach the poorest, underemployed, and malnourished people who cannot earn money to purchase the food they need. These poorest people are often only able to obtain food from direct distribution programs, including direct feeding centers and/or food-for-work programs. Such programs (which often receive food supplied under Title II of PL 480) can relieve hunger and often--as in the case of emergency relief--save lives. While designed primarily to meet the economic and nutritional needs of the very poor, direct food assistance can also be viewed as an investment in human capital rather than as an expenditure for immediate consumption. U.S. policy is to design such programs to the extent practicable, to encourage self-help and food self-reliance in order to avoid permanent dependence on them.

#### 4. Assuring That Food Aid Does Not Act as a Disincentive to Production

In providing food aid it is important that its use and distribution occurs in ways that do not inhibit or reverse the development of market facilities for meeting food demand and that production disincentives are not created. Methods used in the food aid programs include: (a) building up food stocks to stabilize agricultural producer incomes; (b) increasing the effective demand of low income groups through modified market approaches or direct food distribution programs; (c) using local currency for investment in productive agricultural

infrastructure such as dikes and channels; and (d) using food aid to create permanent employment through policies that stimulate a labor-intensive pattern of private sector agricultural and nonagricultural growth.

### C. Energy Assistance

AID's energy programs are designed to meet three major goals:

- To promote the development of sound national energy policies integrated with national economic policies which support sustained economic growth;
- to expand production of economic indigenous energy sources substituting for higher cost imported energy wherever economically justified; and
- to improve the efficiency of energy use.

Assistance is provided in the form of training and institution building, technical advice, research and technology transfer. AID provides capital assistance in only a few countries, and therefore AID programs seek to leverage funds from the private sector and the major development banks. Since private investment represents the major source of capital for the development of new energy supplies and the technologies to exploit these resources, AID works with host country governments to develop and implement sound policies to encourage such investments.

### D. Addressing the Problem of Environmental Degradation

Developing countries face increasingly serious environmental and natural resource problems. The effects of poverty and development itself lead to resource degradation, limiting the productivity of agricultural lands, forests and fishing areas. AID's long-term development policies and strategies focus on the following:

- Ensuring, through detailed analysis, the environmental soundness and long-term sustainability of AID assistance programs and projects;
- assisting developing countries to build the institutional and scientific capacity required for identifying, assessing and solving their critical environmental and natural resource problems and to establish programs for the management of natural resources; and

- promoting environmentally sound development projects funded by multilateral and bilateral development assistance agencies.

During the past year, program and policy guidance has been issued to field missions to encourage the preservation of humid tropical forest ecosystems and to exercise extreme caution in pursuing development projects which lead to the full or partial conversion of these forests.

AID has been working with a task force composed of other U.S. government agencies and private organizations to prepare a US strategy for the conservation of biological diversity which was submitted to the Congress in February 1985. The major conclusion of the report was that provisions for conserving biological diversity must be incorporated into development planning and that a concern for biological diversity should be an integral part of all development programs. An implementation plan is now being developed to build on the report's recommendations.

#### E. Aid for Research and Scientific Cooperation

The Office of the Science Adviser (SCI) was established in 1981 in response to a congressional action calling for a new Program for Scientific and Technological Cooperation (PSTC). SCI responsibility for taking advantage of breakthroughs and advances in the frontier sciences and in exploring the potential uses of new and particularly innovative technologies that are related to international development. Simultaneously, the Office seeks to strengthen the capacity of LDCs to use these new technologies. It is also an important instrument of AID's policy to collaborate with LDC scientists in establishing priorities for future programs of technology transfer.

PSTC funds support a program of highly competitive research grants in five areas of research emphasis: Biotechnology/- Immunology, Plant Biotechnology, Chemistry for World Food Needs, Biomass Resources and Conversion Technology, and Biological Control of Disease-bearing Organisms.

A sixth area, Biological Diversity, will be added in FY 86. The program emphasizes innovative approaches such as genetic engineering methods to develop new crop species.

Over 2100 requests for funding have been submitted to PSTC. Many of them are from LDC scientists, who are given priority. Grants do not exceed \$150,000 for a three year period; thus permitting a

sizable number of grantees. In FY 1984 AID obligated \$6.8 million: \$6.6 million was used to fund 52 proposals under the Innovative Scientific Research project and \$0.2 million for one proposal and eight technical assistance activities under the Strengthening Scientific and Technological Capacity project. In FY 85 AID plans to obligate \$6.0 million to fund approximately 50 proposals selected from nearly 500 preproposals and funding of \$6.5 million is planned for FY 86.

The PSTC competitive grants are intended to provide modest funding for innovative research projects; promising programs with additional requirements may then receive continued support from an AID Mission or a Regional Bureau Office. An example of a research program which began under a PSTC grant and is now continuing under Mission funding is the restoration of pollution-destroyed sea grasses off the coast of Jamaica to reopen fisheries, providing work for unemployed fishermen.

PSTC funds also support a grant with the National Academy of Sciences (NAS) to develop research networks in LDCs to work on important development problems. Networks of LDC research institutions have been established and are being funded in six areas: grain amaranth, biological nitrogen fixation, fast-growing trees, mosquito vector field studies, rapid epidemiologic assessment methods and acute respiratory infections in children. The NAS solicits proposals from LDC institutions which are judged to have the capability to best contribute to the objectives of the research network. External experts review the proposals for scientific merit and a committee of scientists from developing countries and the U.S. approves the proposals that are funded. From preselection through the end of the research grant, the NAS provides a range of support services to the principal investigator: help in project design, workshops where investigators in the same research area meet to exchange information and, when required, short-term training in innovative research technologies. The NAS also carries out selected studies, workshops, and other activities related to the development of LDC research programs, including a major dissemination effort of NAS findings.

While the first grants in this research network program were only made in 1982, some promising results have already been obtained. These include the development of a new high-yielding strain of amaranth and of a new pasture system, using Kaller grass and associated nitrogen-fixing soil bacteria, which makes use of previously unusable high-salinity soils.

In addition to the PSTC, AID supports research and scientific cooperation through a large number of projects funded by the Bureau for Science and Technology, the regional bureaus and individual Missions. Many of these programs are directed toward training scientists and creating and strengthening research institutions in LDCs. Under the current Administration, AID is also increasingly providing support to the research undertaken in those institutions, particularly those with substantial research capability in the priority AID research areas of agriculture, the biomedical aspects of health and nutrition, improved family planning methods and forestry and fuelwood.

AID will continue its support of the agricultural research centers of the CGIAR system and of national agricultural research systems. In addition, as part of its support for agricultural research in Africa, AID supports the World Bank initiative to increase support for intercountry research networks on important staple food crops.

Some of the specific AID-sponsored research programs which have shown and continue to show particular promise include:

- In Agriculture and Rural Development, the development of an early-maturing, high-yielding hybrid sorghum in the Sudan; of high-yielding, drought-resistant cowpea cultivars in Africa and Latin America; of a potent, heat-stable vaccine for contagious caprine pleuro-pneumonia (research conducted in Kenya, employing advanced biotechnological techniques); and of new technology for growing shellfish and other commercially important marine species on a seaweed diet;
- in Nutrition, the development of a sustained-release iron supplement capsule and discovery of morbidity and mortality factors in children related to Vitamin A deficiency;
- in Health, the development of readily disseminated Oral Rehydration Therapy suitable for home care; and utilizing the tools of biotechnology, the development of malarial vaccines, diagnostic techniques, drug resistance and the identification of disease vectors;
- in Education and Human Resources Development, research and development on education and training technologies, administrative and management systems, telecommunications, and on the use of radio and other media in education;

- in Energy and Natural Resources, development of renewable energy technologies including photovoltaic cells (used to provide electricity for purposes such as running refrigerators in rural health clinics and irrigation pumps), biogas digesters, wind turbines and windmills, geothermal energy and solar domestic hot water heating, alternative fuels such as low grade coal and sugar cane as substitutes for oil in electricity production, and support for forestry research with specific projects including natural forest management, plantation culture of fast-growing trees as fuel for rural cooperative power plants, the use of trees in watershed management and the identification and improvement of multipurpose tree species;
- in population planning, support for research on innovative contraceptive technologies such as immunocontraception, short term and long-term injectable hormone-based contraceptives, male hormonal contraceptives, advanced hormone-releasing IUDs, and research for improved application and adoption of natural family planning. In addition, an operations research program, Strategies for Improving Service Delivery, is designed to help LDC researchers and program administrators improve quality and delivery of family planning and maternal-child health services. In recent years, AID's strategy in population planning research has been to emphasize near-term, applied research as opposed to the fundamental research which is emphasised by other agencies, particularly the National Institutes of Health.

A unique new AID initiative which will begin in FY 85 is the U.S.-Israel Cooperative Development Research Program. This program provides U.S. funding for innovative cooperative research involving Israeli and LDC scientists from universities, Government laboratories or the private sector, working in the natural sciences and engineering to solve serious development problems. The focus is solely on LDC problems, particularly those areas (such as arid lands agriculture, genetic diversity, etc.) in which Israeli research interests and expertise are particularly valuable to LDCs.

#### F. Aid for Industrial and Technological Cooperation

Strengthening the private sector in the Third World can encourage broadly-based, equitable and sustainable economic growth and development which can contribute significantly to meeting basic human needs in these countries. At the present time, many

developing countries are seeking ways to promote the private sector, such as privatizing some state-owned enterprises, moving toward economic policies that encourage the growth of business activities, taking steps to attract investment and stimulate exports, and initiating the development of programs to increase access to new markets and enhance technology transfer, development and commercialization opportunities.

Examples of AID-supported activities and projects which incorporate these elements are the Joint Agricultural Consultative Corporation, which promotes the transfer of agribusiness technology; the Healthlink Project, designed to test the feasibility of manufacturing and marketing of certain health-related products in Thailand and Indonesia; the Renewable Energy Development Project, through which a high-efficiency charcoal stove is now being manufactured and marketed through the private sector in Kenya, and small businesses such as a shrimping operation in Antigua and a coffee waste by-product processing facility in Costa Rica which were initiated under AID loans.

AID also works in direct cooperation with LDC Governments to increase the effectiveness of U.S. development assistance and to build local industrial and technological capability by expanding applications of Science and Technology to development needs. An example is a new broad-based science and technology project recently launched by AID and the Government of Thailand, which will include development of processes and products for improved or new industrial development and improvement of quality control systems. The project will focus on bioscience and biotechnologies, materials technology and applied electronics technology. Another example is a new project, "Program for Advancement of Commercial Technology," that will assist near-term (up to 3 years) joint R & D ventures between U.S. and Indian industrial firms.

#### G. Population

The basic objective of all U.S. assistance is the betterment of the human condition--improving the quality of life of mothers and children, of families, and of communities for generations to come. Rapid population growth compounds serious problems faced by LDCs in meeting basic needs for food, shelter, education, and health care. Population growth competes for scarce economic resources needed for investments essential to rapid economic progress. Moreover, high fertility adversely affects the health of mothers and children in developing countries through the close linkage of health and nutrition to family size and the spacing of births.

At the 1984 International Conference on Population, the United States reaffirmed its commitment to provide support for voluntary family planning programs, based on the principle that family planning and other economic development policies and programs are mutually reinforcing. The U.S. supports the involvement of both public and private sector institutions in the provision of family planning services, and will provide continued support for the marketing of contraceptives through existing commercial channels.

The underlying principles of U.S. assistance for family planning are voluntarism and informed choice. Provision of a variety of family planning services acceptable within the cultural and religious context of each country is critical both for effective programs and for the protection of the principles of voluntarism and informed choice. Moreover, the United States believes that family planning programs should include natural family planning methods where these are appropriate to the beliefs of the individuals and recipient nations.

Consistent with the conclusions of the 1984 International Conference on Population, U.S. policy does not regard abortion as an acceptable method of family planning. U.S. policy considers family planning to be a humane and workable alternative to abortion and emphasizes the need for broader access to family planning education and services, especially in the context of maternal/child health programs. The U.S. thus provides no financial assistance to any organization for the purpose of practicing abortion. Consistent with this policy, U.S. funding to the UNFPA has been reduced by the same proportion that abortion activities represent in the organization's budget.

#### H. Education and Training

All developing countries continue to have specific needs for more trained personnel and most countries continue to struggle with the very difficult task of expanding their school systems to enable most children to obtain a basic education. High level manpower training and technical assistance to help countries improve the efficiency of their basic education systems are the two priorities of AID's education assistance programs.

Manpower training for key administrators, managers, scientific and professional personnel has grown substantially. Project-related training in agricultural, health, population and other sectors supports external training for an additional three to four thousand individuals annually. External training in U.S. universities is the main training emphasis, though there is

increasing support for short-term training, training in third-country institutions and strengthening of local training institutions. AID projects significant increases in training for all regions, with over 15,000 individuals training in the U.S. in FY 1986.

Support for basic education, which has declined in recent years, is again being emphasized. AID policy on basic education and technical training encourages: (1) improvements in the internal efficiencies of basic schooling systems; (2) improved management of recurrent costs of large scale education systems; (3) closer linkages between education and training systems and employment; and (4) greater involvement of communities, parents and the private sector in the development and maintenance of the education and training systems. These efforts are currently about 30 percent of AID's education assistance and are expected to grow somewhat in future years, particularly in Sub-Saharan Africa.

#### I. Health

Despite progress toward increasing life expectancy in recent years, the health of the majority of people in most developing countries remains poor by any standard of comparison. One-third or more of all infants die before the age of five, and hundreds of millions of adults suffer from chronic, debilitating diseases. The basic objective of AID's health program is to assist developing countries to become self-sufficient in providing broad access to cost-effective preventive and curative health services. Primary Health Care (PHC) remains AID's top priority in its health assistance efforts. Within the broad framework of PHC programs, AID is concentrating on the following initiatives:

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

AID gives special attention to encouraging LDC's to modify policies that inhibit cost-effective, self-sufficient programs. The Agency stresses private sector approaches to providing basic health care, and emphasizes the need to introduce cost-recovery measures into LDC health programs. AID also 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, practitioners and enterprises, and voluntary organizations. AID is also increasing its support for technology development, adaptation and transfer, principally through biomedical research relevant to LDC health problems.

One of the more promising areas of AID activity in the health sector is the Agency's support for Oral Rehydration Therapy programs. Oral Rehydration Therapy (ORT) is a simple, effective weapon against diarrhea, which is responsible for about 5 million deaths per year, or about 30 percent of all LDC infant deaths. ORT involves the administration of a solution of sugar, salts and water to reverse the damaging effects of dehydration due to diarrhea.

AID has recently supported the dissemination of this powerful health measure in a variety of ways. AID continued to finance important basic research activities at the International Center of Diarrheal Disease Research in Bangladesh. In cooperation with WHO and UNICEF, AID sponsored the first International Conference of ORT, which attracted 600 scholars, policymakers and health officials from developing as well as developed countries. AID has begun to work in collaboration with the Peace Corps to broaden official U.S. Government support for ORT programs. The Agency has also financed a series of ORT programs in developing countries to make this life-saving technology more widely available.

AID financed researchers recently scored a major breakthrough in the search for a malaria vaccine. Millions of people in the developing world could be spared the debilitating and costly effects of malaria if a simple, inexpensive, safe and effective measure against this scourge were readily available. Several technical breakthroughs have recently been made in the area of genetic engineering that have allowed AID's malaria vaccine program to isolate, develop and test prototype vaccines against both the mosquito and blood cell forms of the malaria parasite in animal models. With additional AID funding, the program is being accelerated to permit expeditious overseas field trials of the malaria vaccine.

## J. Nutrition

Hunger has been identified as one of the five problems for focus by the Agency, with specific goals identified in the Agency Strategic Plan. These goals are to achieve by the year 2000 a critical level of caloric intake for at least 90% of the population in AID-assisted countries, and to reduce the

percentage of children under age five suffering from chronic malnutrition to less than 20%. Various approaches are being taken to achieve these goals, including the following new initiatives: Vitamin A distribution to reduce nutritional blindness in Asia and Africa and potentially reduce morbidity and mortality in moderate vitamin A-deficient children; a program to improve dietary management of diarrheal disease in Africa and Latin America; a project to improve nutrition surveillance programs in selected African countries; community-based nutrition programs undertaken by AID-funded Private Voluntary Organizations worldwide; and a major new nutrition project directed toward mother and preschool children in India. Continuing support will be given to successful public health nutrition interventions, which include promotion of growth monitoring, increasing use of mass media in nutrition education, encouraging breast feeding and improved weaning practices, and prevention of anemia. The Agency will also continue to promote the inclusion of nutrition considerations in the design and implementation of food and agriculture programs, and in the targeting of food aid provided by PL 480 Title II programs.

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

#### XIV. Women in Development (WID)

##### A. Recent Policy Developments

The United States recognizes that gender distinctions constitute a key variable in any economic development program. The chief policy focus is integrating women's concerns into the design and implementation of all U.S. assistance programs. The AID Women in Development (WID) staff has continued to monitor Agency activities and has increased efforts to provide technical assistance to overseas AID missions for their own portfolio reviews and project design activities. A major strategy for 1986 will emphasize a wider range of technical assistance to the field. A second, effective strategy of the WID Office has been the leveraging of funds to include women more fully in large-scale Agency development efforts. This involves joint sponsorship of initiatives at the early design stage among

central and regional bureaus, and field missions, as well as local and national organizations, to ensure that gender concerns are effectively included in major projects. Agency funding for WID activities has escalated each year as documented by the biennial Report to Congress.

The Agency continues efforts to train field personnel on how women's roles can and must be integrated into all program and project phases. Based on the analysis of its Asia regional training program held in Bangkok, the Agency will be conducting further region-specific field training workshops. In its WID efforts, AID continues to emphasize: increased employment in the private sector; credit and technical assistance; agricultural development; technology transfer; education and training for women and girls in both the formal and non-formal sectors; development and distribution of instruction materials; as well as increased participation of women in AID-sponsored training, both overseas and in the U.S.

B. Measures Taken to Ensure the Full Participation of Women in the Development Process

The Agency-approved Policy Paper on Women in Development, guidance cables from the AID Administrator, and from the regional and central bureaus to the field missions, have required consideration of women's roles and impact on women in all the program and project planning documents. In addition,

- At its own initiative, the Latin America and Caribbean Bureau established a LAC Task Force on Women in Development. Country-specific strategies are being developed to more effectively include WID concerns.
- Considerable progress has been made by central offices, bureaus, and missions in independently ensuring that project design teams include gender distinctions with their socio-economic analyses.
- A year-long effort has been completed to study and synthesize AID's experience in the last decade in integrating women and girls into its entire programming. Workshops will be held to analyze data and issue recommendations for further policy development.
- The WID staff and consultants have provided technical assistance to AID missions for portfolio review, project design and implementation, and/or project evaluation.

- The Agency is increasing its efforts to target participant training opportunities to the most disadvantaged groups in the developing countries. In this endeavor, women are being considered as the highest priority disadvantaged group. The Office of International Training is developing appropriate methodologies to increase participation of women in its overall training programs.

C. Measures to Improve WID Statistics, WID Research

AID considers it vital to add to the body of knowledge and empirical data on women's roles in development. The following are among recent endeavors:

- AID has funded, and widely disseminated, a macro-economic study emphasizing public policies which can inhibit or enhance economic integration of both rural and urban women in the Third World.
- AID published its biennial Report to Congress which comprehensively documents Agency progress and efforts in WID programming.
- AID has funded an innovative pilot project in Yemen that can be replicated in any country. The project, which has been extremely well received by Yemeni officials, involves the creation of a specially designed computer simulation model to graphically demonstrate the key role women can play in the future economic development of the country.
- AID devoted an entire edition of the Agency's publication, Horizons, exclusively to WID issues. The internationally disseminated publication describes a variety of current Agency accomplishments, research, and projects in WID.
- AID is supporting the development of WID implementation guidance modules. These are products in notebook form that are intended to provide practical "how to" guidance on WID issues to AID project managers in the identification, design, management and evaluation of projects in specific sectors. These notebooks respond directly to a perceived need of the Agency's field personnel.

- AID has also emphasized the importance of disaggregating data by sex by providing funds to the U.S. Bureau of the Census to produce four regional handbooks for the developing world which compile the most recent sex disaggregated data by country and by sector.

D. Actions to Promote WID Concerns in NGOs and Multilateral Organizations

AID has played a major role in assuring that WID concerns are addressed by the international donor community.

- AID was involved in ensuring that WID concerns were substantively addressed in NGO activities of the 1985 UN Decade Conference in Nairobi. The Agency provided assistance to the NGO Organizing Committee, as well as support for selected Forum workshops, the preparation and dissemination of documents, and funding for the participation of over 100 Third World women at the NGO Forum.
- AID's Office of Women in Development works directly with NGOs in implementing projects for and with women in developing countries.
- AID participates in the drafting of position papers on women in development issues for the United Nations.
- AID's WID Office and the Office of Donor Coordination are collaborating on specific commentary to ensure appropriate WID attention in multilateral development efforts.
- The WID Office also has been working with selected international institutions, such as the Asian Development Bank, to recommend effective methodologies for the inclusion of gender concerns in implementing policy and programs.

E. Actions to Promote the DAC/WID Guiding Principles

AID is implementing the WID Policy Paper, which is consistent with the DAC/WID Guiding Principles. AID is developing mechanisms to further disaggregate data in AID's Office of Training, and to collect data on all of AID's projects and programs which have an impact on women's roles and needs in

developing countries. In addition to serving as a commentator for several sector-specific position papers, AID's WID Office is preparing a synthesis of all donor countries' evaluation efforts to assess methodologies and research results.

#### XV. Broader Instruments of Development Cooperation

##### A. Reimbursable Technical Assistance

In cases where technical assistance would result in improved management and operations, increased productivity or new investment, the concept of "reimbursable technical assistance" may be an appropriate form of development cooperation. In such cases, there exists the opportunity for generating additional revenue to cover the costs of the technical assistance. The International Executive Service Corps (IESC), an organization consisting of retired U.S. business executives, for example, provides technical and managerial assistance to developing country businesses and other organizations on a cost recovery basis wherever possible. The client firm or organization is expected to pay, to the extent possible, for the technical assistance services provided. The AID funding allows IESC to cover some of its central and country level administrative costs (e.g., offices in 13 countries).

##### B. New Initiatives to Involve the U.S. Private Sector in Development Efforts

AID private sector initiatives program, a major thrust of its economic development strategy, is based upon the idea that sustained, equitable growth in the Third World requires participation of the indigenous and external private sector, individual initiative and entrepreneurship, and the preservation of competitive market forces.

AID Bureau for Private Enterprise (PRE) provides a focus for the organization, implementation, and coordination of the Agency's private sector initiative. PRE is also developing and financing many innovative private enterprise projects that should have substantial impacts on employment and growth in developing countries.

Many projects entail the involvement of U.S. private enterprise in LDC private enterprise development efforts. U.S. private sector expertise, resources, and institutions are used to:

- Provide assistance through U.S. business organizations and law firms with international expertise in reviewing host country laws, regulations and policies which affect business operations and investment decisions, providing recommendations on needed changes to improve the overall investment environment;
- Develop and provide both technical and management training which responds directly to perceived business needs by providing access to U.S. business and technical schools, and other private training institutions/organizations;
- Assist in the transfer, incorporation and management of new, appropriate technologies in host country business enterprise through technical assistance, joint venture investments and other business relationships through such U.S. private organizations as the Joint Agricultural Consultative Corporation, the International Executive Service Corps mentioned earlier and others;
- Help develop skills and expertise needed to start new businesses, including business and strategic planning, raising capital, and penetrating new markets, by calling on successful U.S. entrepreneurs to provide such assistance.

In addition, many AID programs rely upon the use of private sector organizations such as U.S. or local PVOs, business or labor associations, or private enterprises. Perhaps more than any other source of U.S. expertise, private voluntary organizations are able and willing to assist small enterprises in the poorer regions of many LDCs. These PVOs are particularly suitable institutions to provide the person-to-person advisory services needed by developing countries.

#### C. New Initiatives to Encourage LDC Indigenous Private Sector Participation in Development

AID has expended much effort over the past 4 years to help foster the conditions needed for self-sustained economic growth for LDC private enterprises; encourage the growth of small- and medium-scale indigenous private enterprises; strengthen the linkages between U.S. and LDC private enterprises; and channel more of its resources through private sector mechanisms when host country conditions have made this possible.

In addition to the many projects that are categorized as solely private enterprise development, AID cooperates with recipient

countries on many projects that utilize the private sector as a delivery mechanism or benefit the private sector. These projects are found in agribusiness development, food and agriculture development, the delivery of family planning services, improvement of health care, the provision of education and training services, and the efficient provision and maintenance of transportation and infrastructure in developing countries. These projects may also cover areas as diverse as credit availability, pricing, manufacturing and facility development, export development, and promotion of nontraditional exports.

A primary target of AID assistance is small- and medium-sized business development. The needs of small- and medium-sized enterprises in developing countries include: i) appropriate forms of debt and equity financing; ii) technical, managerial and marketing assistance; iii) access of product and market information; and iv) a policy environment which encourages the development of and investment in such enterprises. Assistance is provided in all of these areas.

On the policy level, efforts will be made to encourage the development of laws and regulations which provide tax and other incentives for investing in small- and medium-size businesses. While AID does not advocate subsidization, preferential tax treatment and other incentives may help to offset risk perceived by potential investors. AID is also working to strengthen existing and, especially, to create new LDC private sectors institutions.

#### D. Trade and Initiatives to Encourage Increased Trade and Investment in LDCs

##### Trade

U.S.-LDC trade has expanded steadily since the 1960s. Between 1960 and 1983 U.S. imports from LDCs increased five-fold in real terms. In 1983, 42 percent of total imports into the U.S. came from developing countries: 33 percent originating in non-oil LDCs. Between 1970 and 1983 U.S. imports from developing countries increased at an average annual rate of 26.3 percent in current dollars (25.3 percent from non-oil LDCs) versus 18.2 percent for imports from industrial countries.

While much of the increase in LDC exports to the U.S. between 1979 and 1983 was higher value manufactures such as electrical machinery, telecommunications equipment and office machines, exports of traditional manufactures including apparel increased 72 percent, steel 72 percent and footwear 85 percent. Growth in U.S. exports to LDCs averaged 20.0 percent (19.1 percent to

non-oil LDCs) between 1970 and 1983 compared to 16.1 percent for exports to industrialized countries. Growth in U.S.-LDC trade can, in part, be attributed to the general openness of the U.S. market abetted by the GSP and the fact that there are no import duties on approximately 70 percent of imports from the least developed economies.

The U.S. GSP program gives duty-free tariff preferences to over 3,000 tariff classifications of imports from 140 countries. The program was revised and extended in October 1984. The revised program provides the potential for further liberalization and adds flexibility in a way that ensures that GSP benefits accrue to those LDCs most in need of preferential treatment. LDC exports to the U.S. under the GSP program rose from \$5.2 billion in 1979 to \$10.8 billion in 1983.

AID has long recognized the essential importance of trade in economic development. For example, AID was the principal sponsor of two major National Bureau of Economic Research studies on the subject: Foreign Trade Regimes and Economic Development, 1978 (2 volumes); and Trade and Employment in Developing Countries, 1981 (3 volumes). These extensive study projects found substantial empirical evidence supporting outward oriented development strategies. Since 1980, the importance of LDC export capability and performance has been given greater stress as part of AID's heightened concern about LDC macroeconomic policies, debt servicing problems and slow growth.

AID is addressing the problem of accelerating LDC growth by several means. First, at the general policy level, AID is encouraging LDCs to introduce more flexibility into their exchange rate regimes, to reduce other export-impeding policies such as excessive foreign exchange controls and import restrictions and to reduce high effective rates of protection for import-competing industries. AID is pursuing this approach in the general context of its policy dialogue with host countries, by supporting stabilization and structural adjustment efforts by multilateral financial institutions and by working with other bilateral donors on specific cases.

At another level, AID attaches conditions to some of its assistance which address economic stabilization or structural problems including liberalization of import controls and reduction of restrictions on exports. AID also designs some of its programs in a way which, to the maximum extent feasible, favor host-country export activities by giving priority to imported inputs used by export producers.

There has been a substantial increase in efforts to encourage exports in AID country program strategies and in specific programs. This trend particularly applies to Latin America where, spurred by Caribbean Basin Initiative (CBI), there has been a marked increase in AID activities which specifically address exports. The number of explicitly export oriented activities has increased from a handful prior to 1982 to approximately 40 in 1985. The AID-assisted export programs stress increasing export competitiveness and diversification of exports in agriculture, industry and handicrafts. AID export-oriented programs span a large variety of areas including directly productive projects; training, technical assistance, and studies; financial facilities for export; expanding private sector involvement; and encouraging private foreign investment in exporting.

### Investment

The U.S. has also put a renewed stress on increasing the flow of investment to LDCs. Several kinds of approaches are being employed simultaneously. The U.S. has increased its efforts to help LDCs make their economies more attractive to potential investors by improving the policy climate through policy dialogue and conditioned assistance. The U.S. is also introducing more programs in host countries in all regions, but especially in Latin America, designed to attract foreign investment in production activities for domestic and for export markets.

On the U.S. side, the Overseas Private Investment Insurance Corporation (OPIC) has greatly expanded its operations to facilitate investment in LDCs. The OPIC investment insurance program has grown from a \$600 million level in 1978 to over \$4 billion in 1984. Between 1981 and 1984, OPIC issued a total of \$12.8 billion worth of coverage for 438 investment projects, compared to \$8.6 billion total for the first 10 years of OPIC's operations. During the 1981-84 period, OPIC made direct loan, investment guaranty and local-currency loan commitments of more than \$432 million in support of 83 projects around the world. The average annual dollar amount of the agency's financing commitments, excluding local currency loans, increased to \$104.7 million during the 1981-84 period, compared with \$37.7 million during 1971-80. The average number of feasibility studies approved each year increased from four per year during 1971-80 to 26 during the 1981-84 period. Plans are being discussed now to expand further OPIC operations.

The U.S. has continued its efforts to increase the number of Bilateral Investment Treaties (BITs) with developing economies. The purpose of the BIT program is to encourage investment in LDCs by obtaining a stable and predictable legal framework for investors. Thus far, the United States has signed BITs with Panama, Egypt, Senegal, Haiti, and Zaire. The U.S. reached ad referendum agreements with Morocco, Cameroon and Costa Rica, which are expected to be signed in the near future. The United States also has, or will soon have, negotiations underway with Gabon, Bangladesh, Liberia, Ivory Coast, Somalia, Sri Lanka, El Salvador, Honduras, Burundi, People's Republic of China, and Malaysia. It has been U.S. policy to begin BIT negotiations only with countries which have requested such negotiations. Over the past four years, the United States has met with over forty countries to explore the possibility of negotiating BITs.

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TABLE I

Structure of U.S. Official and Private Flows: Net disbursements

(Millions of dollars)

Type of transaction <sup>1</sup>	Calendar year			
	1983		1984	
	Amount	Percent	Amount	Percent
Total Official and Private Flows (I + II + III + IV).....	Ⓔ23,037	100	28,585	100
Total Official Flows (I + II).....	Ⓔ8,137	35	9,734	34
I. Official Development Assistance.....	Ⓔ8,081	35	8,711	30
Bilateral grants and grant-like flows...	Ⓔ4,540	20	5,644	20
Bilateral loans.....	1,023	4	813	3
Multilateral <sup>2</sup> .....	Ⓔ2,518	11	2,254	8
II. Other Official Flows.....	56	(*)	1,023	4
Total Private Flows (III + IV).....	14,900	65	18,851	66
III. Private Flows at Market Terms.....	13,580	59	17,387	61
Direct investment <sup>3</sup> .....	2,340	10	4,419	15
Multilateral portfolio.....	1,067	5	448	2
Other long-term assets, including export credits.....	10,173	44	12,520	44
IV. Grants by Voluntary Agencies.....	1,320	6	1,464	5

\* Less than 0.5 percent.

● Revised.

1. For details see DAC questionnaire table 1.

2. Disbursements of capital subscription payments to multilateral development banks are recorded on the issuance basis.

3. Includes net new direct investment and reinvested earnings.

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

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TABLE J

Summary of U.S. Official and Private Flows: Net disbursements

(Millions of dollars)

Type of transaction <sup>1</sup>	Calendar year		Annual change
	1983	1984	
Total Official and Private Flows (I + II + III + IV).....	*23,037	28,585	+24%
Total Official Flows (I + II).....	*8,137	9,734	+20%
I. Official Development Assistance.....	*8,081	8,711	+8%
II. Other Official Flows.....	56	1,023	n.a.
Total Private Flows (III + IV).....	14,900	18,851	+27%
III. Private Flows at Market Terms <sup>2</sup> .....	13,580	17,387	+28%
IV. Grants by Voluntary Agencies.....	1,320	1,464	+11%
Memo item:			
U.S. Gross National Product <sup>3</sup> (billions of dollars)....	*3,324.0	3,662.8	+10%
Percent of Flows to U.S. GNP:			
Total Flows.....	.69%	.78%	\$\$\$\$\$\$
ODA.....	.24%	.24%	\$\$\$\$\$\$

\* Revised.

1. For details see DAC questionnaire table 1.

2. Includes net new direct investment and reinvested earnings, portfolio investment, and export and trade credits.

3. GNP for 1983 is as adjusted to standardized System of National Accounts basis; for 1984, is as published by U.S. Bureau of Economic Analysis in July 1985 Survey of Current Business.

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

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TABLE K

## Commitments of U.S. Official Programs

(Millions of dollars)

Type of transaction	Calendar year							
	1983				1984			
	ODA	OOF	Total	ODA grant element	ODA	OOF	Total	ODA grant element
Total.....	9,464	1,173	10,637	94.4%	10,473	2,780	13,253	93.6%
Excluding debt reorganization.....	9,430	1,037	10,467	94.5%	10,434	1,413	11,847	93.7%
Grants <sup>1</sup> .....	8,088	--	8,088	100.0%	8,605	--	8,605	100.0%
Excluding debt reorganization.....	8,088	--	8,088	100.0%	8,605	--	8,605	100.0%
Loans.....	1,376	1,149	2,525	61.7%	1,868	2,755	4,623	64.2%
Excluding debt reorganization.....	1,343	1,012	2,355	61.7%	1,829	1,387	3,216	64.2%
ODA.....	1,376	\$\$\$\$\$\$\$\$	1,376	\$\$\$\$\$\$\$\$	1,868	\$\$\$\$\$\$\$\$	1,868	\$\$\$\$\$\$\$\$
Excluding debt reorganization.....	1,343	\$\$\$\$\$\$\$\$	1,343	\$\$\$\$\$\$\$\$	1,829	\$\$\$\$\$\$\$\$	1,829	\$\$\$\$\$\$\$\$
OOF.....	\$\$\$\$\$\$\$\$	1,149	1,149	\$\$\$\$\$\$\$\$	\$\$\$\$\$\$\$\$	2,755	2,755	\$\$\$\$\$\$\$\$
Excluding debt reorganization.....	\$\$\$\$\$\$\$\$	1,012	1,012	\$\$\$\$\$\$\$\$	\$\$\$\$\$\$\$\$	1,387	1,387	\$\$\$\$\$\$\$\$
Equity participation.....	--	25	25	\$\$\$\$\$\$\$\$	--	26	26	\$\$\$\$\$\$\$\$
Grants as a percentage of total.....	85.5%	--	76.0%	\$\$\$\$\$\$\$\$	82.2%	--	64.9%	\$\$\$\$\$\$\$\$
Excluding debt reorganization.....	85.8%	--	77.3%	\$\$\$\$\$\$\$\$	82.5%	--	72.6%	\$\$\$\$\$\$\$\$

\* Revised.

1. Includes grant-like transactions and capital subscriptions to multilateral institutions.

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

July 22, 1985