United States International Development Cooperation Agency

Congressional Presentation
Fiscal Year 1991

UNITED STATES
INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
WASHINGTON, D.C. 20523

OFFICE OF THE DIRECTOR

February 1990

TO THE CONGRESS OF THE UNITED STATES:

The International Development Cooperation Agency (IDCA), components of which are the Agency for International Development (A.I.D.), the Oversees Private Investment Corporation (OPIC), and the Trade and Development Program (TDP), is responsible for bringing development considerations to bear on U.S. policies in international finance, investment, trade, technology, and other areas affecting developing countries.

This document provides a broad overview of U.S. interests in developing countries, their development problems and current economic conditions, and the various programs and policies employed by this Administration to further U.S. objectives.

Detailed descriptions and justifications for the fiscal year 1991 budget requests of IDCA's component agencies are provided in the separate Congressional Presentation documents of the individual agencies and programs. These include:

Agency for International Development (A.I.D.)
- Main Volume, including Centrally Funded Programs
- Main Volume, Part II
- Africa
- Asia, Near East and Europe
- Latin America and the Caribbean
- Summary Tables

International Organizations and Programs (IO&P)

Trade and Development Program

Development Issues 1990, the annual report to Congress of the interagency Development Coordination Committee which is chaired by the Director of IDCA, provides a full analysis of U.S. development policies, programs, and activities for the fiscal year 1989.

Mark L. Edelman
Mark L. Edelman
Acting Director

INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

CONGRESSIONAL PRESENTATION

FISCAL YEAR 1991

This report contains information required under Section 634 of the Foreign Assistance Act.

TABLE OF CONTENTS

INDEX OF TABLES AND CHARTS

TABLES

CHARTS

UNITED STATES
INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
WASHINGTON, D.C. 20523

OFFICE OF THE DIRECTOR

INTRODUCTION

The year 1989 may be remembered as an historical watershed--the year of the triumph of political-economic ideas based on competitive markets and representative democracies over those based on centralized economic controls and self-appointed custodianship of political power. The process started in 1989 is by no means complete and the final outcome is not assured. It will need to be nurtured and sustained by effective U.S. assistance programs in Eastern Europe, Latin America, Africa and Asia. Within existing budget constraints, the U.S. Government has formulated assistance programs whose central strategic objectives are the promotion of open markets and political pluralism.

Experience around the world since 1945 has indeed demonstrated that where economic growth has been rapid and where participation in that growth has been broadly based, the impact on family incomes, food availability, life expectancy, and other measures of development has been impressive. The thread that ties together the countries of rapid, broad-based economic growth is the degree to which those countries relied on market forces and open trading systems to ensure efficient production and appropriate rewards to innovation and investment.

In contrast to the successful economies, many developing and East-Bloc nations have stagnated with deteriorating economic bases and declining family incomes. The particular macroeconomic and sectoral policy choices constraining growth in these nations are unique in each case; yet some generalizations are possible. Many of the developing nations' economic problems stem from government efforts to control economies rather than allow market forces and individual enterprise to generate growth. These government controls have generally involved restrictions on prices and trade, protection of government-owned enterprises, and other regulations denying rewards to productive entrepreneurs and driving them underground.

Concerned with slow economic growth in many nations, the United States is committed to providing leadership in efforts to restore and accelerate economic development. America's capacity to assist developing countries is multifaceted, recognizing that each developing economy is unique. The U.S. assistance program includes economic policy advice, development assistance projects, emergency aid, food aid, and contributions to multilateral organizations. It also includes such special programs as investment guarantees and the Caribbean Basin Initiative as well as maintenance and extension of an open international trading and investment system with tariff relief under the generalized system of preferences. It is useful to take stock of where we and the developing economies are headed: to look at why some countries have succeeded; to look at why economic growth in particular countries has been negligible; to look at the fundamental causes of the continued poverty of those countries; and to ask how economic assistance can better contribute to fostering broad-based growth.

As we approach a policy dialogue with individual countries, we do so knowing that market economies have the best track record. We know that we cannot see into the future and anticipate all the secondary effects of even apparently straightforward policy changes. Policy reforms will always be difficult. Risk and uncertainty are inherent elements of development. Country conditions are constantly changing as is the world economic environment. But our objective remains to realize the maximum contributions to growth through policy-based economic reform. To that end, certain principles will continue to guide IDCA programs.

First, we recognize the overriding importance of effective national economic policies to the sustainability of economic growth. A.I.D. is committed to helping countries make needed reforms by working with their governments to identify where change is needed, what new policies would be appropriate, and how to implement them and deal with their effects. A survey of 42 aid-recipient countries confirmed that those countries whose fiscal, monetary, trade, pricing and regulatory policies promoted efficiency in resource allocation tended to register higher growth rates than those countries where restrictive policies were practiced.

Second, we believe that people in countries undergoing economic reforms should not suffer inordinately in the short run from actions that will ultimately improve their standard of living. Although most of the difficulties the more vulnerable groups face pre-date policy reform, such reform can temporarily exacerbate their plight. Therefore, our economic assistance in support of reforms will continue to be designed to cushion adverse short-term effects on the more vulnerable groups.

Third, the sustainability of development progress depends, to an ever-increasing degree, on whether adequate steps are being taken to protect the natural environment. Awareness has become more widespread of the fragility of the world's environment, and how critical protecting the precious natural resources of developing nations is to their future and, indeed, to the future of all the world's inhabitants. Protecting the environment and formulating development policies and programs that are environmentally sound are now absolute priorities at A.I.D. We are committed to working with developing nations and other donors to hasten the day when environmental degradation is a thing of the past, and the plundering of precious natural resources for short-term gain is recognized as the long-term tragedy that it is.

Fourth, although we emphasize the importance of stimulating economic growth, we also highly value measures that lead to human capacity development and enable all citizens to contribute to and benefit from economic progress, e.g., improvements in health care, water supplies, sanitation, voluntary family planning services, and education systems. We will continue to nurture developing country capacity, private as well as public, to provide these services.

Fifth, an ingredient that is integral to the success of any society is political, social and economic pluralism and the rule of law. In simple terms, pluralism means the right to choose--to make all of the daily choices that add up to control of one's own destiny. Pluralism and the policies that promote openness, fairness and opportunity are natural in societies where individual responsibility is valued and where people willingly work together to the benefit of society as a whole.

Sixth, ensuring that economic gains in productivity, health, and education are permanent is of the greatest importance. Our programs and projects must incorporate mechanisms insuring their continuation over time. For example, the uses of oral rehydration must be integrated into the practices of private health care providers, of national health systems, and of families. Activities we initiate or expand must be associated with recurrent costs that are manageable and likely to be acceptable to subsequent governments. The fee-for-service concept can often insure the viability of health activities. We also expect that activities we initiate will reach a broad segment of society that will value, benefit from, and work to continue the activities. Often we take extra steps to insure the extensive involvement of women. Since actions that would provide prosperity to one generation at the expense of the resources passed on to subsequent generations would be unjust, we must work to safeguard natural resources to insure preservation of each nation's resource base.

Seventh, our commitment to provide humanitarian assistance to countries ravaged by floods, famine, earthquakes, plagues and other disasters remains absolute.

Finally, we recognize that the economic successes of the advanced developing nations require new policy choices on our part. We will continue to explore options transforming our relationship with those countries into a productive and more mature partnership through private trade and investment and through scientific, technical and educational exchanges.

Chapter 1.

U.S. Interests in the Developing Countries

1.1. Long-Term Strategic Interests

U.S. relations with the developing countries, though strongly affected by security and foreign policy considerations, are influenced by economic, commercial, technological, and humanitarian interests as well. Many of the developing countries recognize the United States as an essential agent in the fostering of world economic integration and growth. They welcome U.S. assistance as a means of raising living standards and reducing suffering. The United States, with its long history of humanitarian aid, relative abundance of resources, technological expertise, and experience with private-sector-led development and free markets, is eminently qualified for the task.

By offering economic assistance, the United States can achieve greater influence over both the well-being and the behavior of the developing countries. In an increasingly integrated international economy, these countries can benefit or harm the United States in many ways. If they prosper and move toward democracy, they will make the world more peaceful, humane and stable. Their economic development and cultural variety will enrich the world. If they are unable to cope with their problems of poverty, instability, disease, inadequate education and weak institutions, hundreds of millions of people will continue to suffer from the effects of poverty, and the United States will be adversely affected as well. Failing and desperate countries are often prey to their worst political impulses and to interference from powers hostile to the United States.

Both political and economic upheavals can disrupt U.S. supplies of strategic minerals as well as of other imports. Similarly, both political and economic problems can induce developing nation leaders to deny U.S. access to military facilities. Countries unable to grow out of their debts threaten U.S. banks and buy less from U.S. exporters. Countries may be unable to control epidemics which know no national borders, such as acquired immune deficiency syndrome (AIDS), or to act on world-scale problems such as narcotics, deforestation, species elimination, desertification, and environmental pollution. Finally, with the almost inevitable proliferation of nuclear weapons, it is in the U.S. interest to have multiple channels of influence on developing societies.

Development assistance is justified by more than a practical conception of the U.S. national interest. It also is justified on commercial grounds, and it is an appropriate response to America's long tradition of humanitarian assistance.

1.2. Commercial Interests

The issues of U.S. trade, investment, and financial relations with developing countries have become a more important part of U.S. commercial interests, particularly following the emergence of several economies that, with the help of U.S. assistance and open economic policies, have developed rapidly, e.g., Korea, Taiwan, Brazil.

1.2.1. Trade

From 1970 to 1987, a short period in U.S. economic history, the U.S. economy became almost twice as dependent on trade. In 1970, the value of imports and exports of goods and services made up 12.7% of gross national product (GNP); by 1980 that figure was up to 24.5%, and for 1987 the value of trade made up 22.9% of GNP.* The sum of U.S. merchandise exports and imports as a percentage of GNP rose from an 8% average during 1968-72 to almost 16% in 1988. Over the same period of 1970-1987, the United States more than doubled its trade with the developing countries. The sum of U.S. exports to and imports from the non-OPEC (Organization of Petroleum Exporting Countries) developing countries rose from 2.0% to 5.4% of GNP. These trends will continue as the world economy becomes more integrated.

U.S. imports of strategic commodities are an especially important segment of our trade with developing countries. The supplies of a number of these commodities originate mostly outside the United States; and for many of them, developing countries are the major suppliers (Table 1.1). A trade interruption caused by instability or hostility in one of these countries could lead to a dangerous reduction in U.S. stocks.

The United States has taken the lion's share of manufactured exports from the developing countries. In 1988, the United States bought 36% of the developing countries merchandise exports to industrialized countries.** On the other hand, the debt service problems in many of the non-oil exporting developing countries have resulted in severe cut-backs in their imports since 1981.

---

* The Economic Report of the President, 1989.

** International Monetary Fund, Direction of Trade Statistics, Yearbook, 1989, pp. 8 and 402.

TABLE 1.1.

1988 NET IMPORT RELIANCE* [1] OF SELECTED NONFUEL MINERAL MATERIALS AS A PERCENT OF APPARENT CONSUMPTION [2]

		Major Sources (1984-87)
ARSENIC	100	Sweden, France, Mexico, Canada
COLUMBIUM	100	Brazil, Canada, Thailand
MANGANESE	100	Gabon, Brazil, Australia
MICA (sheet)	100	India, Belgium, France, Japan
STRONTIUM (celestite)	100	Mexico, Spain, China
YTTRIUM	100	Australia, Thailand, Malaysia, India
GEM STONES (natural & synthetic)	98	Bel.-Lux., Israel, India, Republic of So. Africa
BAUXITE & ALUMINA	97	Australia, Guinea, Jamaica, Suriname, Brazil
PT-GROUP METALS	93	Republic of So. Africa, UK, U.S.S.R.
FLUOSPAR	91	Mexico, Republic of So. Africa
DIAMOND (industrial stones)	90	Republic of So. Africa, UK, Ireland, Zaire
TANTALUM	89	Thailand, Brazil, Australia, Canada
COBALT	84	Zaire, Zambia, Canada, Norway
ASBESTOS	78	Canada, Republic of So. Africa
TUNGSTEN	75	China, Canada, Bolivia, Fed. Rep. of Germany
CHROMIUM	75	Republic of So. Africa, Turkey, Zimbabwe, Yugo.
NICKEL	75	Canada, Norway, Australia, Dominican Republic
TIN	73	Brazil, Thailand, Indonesia, Malaysia
BARITE	71	China, India, Morocco
ZINC	70	Canada, Mexico, Peru, Australia
POTASH	69	Canada, Israel, German Dem. Rep., U.S.S.R.
ANTIMONY	66	China, Republic of So. Africa, Mexico, Bolivia
CADMIUM	47	Canada, Australia, Mexico, Fed. Rep. of Germany
GYPSUM	40	Canada, Mexico, Spain
SILICON	30	Brazil, Canada, Norway, Venezuela
IRON ORE	22	Canada, Brazil, Venezuela, Liberia
CEMENT	19	Canada, Mexico, Spain
IRON & STEEL	18	EEC, Japan, Canada, Republic of Korea
LEAD	14	Canada, Mexico, Peru, Australia, Sweden
SULFUR	14	Canada, Mexico
BERYLLIUM	13	Brazil, China, France, Republic of So. Africa
COPPER	13	Canada, Chile, Peru, Zaire, Zambia
SALT	11	Canada, Mexico, Bahamas
NITROGEN	11	Canada, U.S.S.R., Trinidad & Tobago, Mexico
ALUMINUM	10	Canada, Japan, Venezuela, Brazil
TITANIUM (sponge metal)	8	Japan
MICA (natural)	6	Canada, India

* Estimated

1 Net import reliance = imports - exports + adjustments for Government and industry stock changes.

2 Apparent consumption = U.S. primary + secondary production + net import reliance.

NOTE:
For a number of minerals, net import reliance data are withheld or incomplete. However, commodities for which sufficient data are available to indicate a significant degree of import dependency include: andalusite (Republic of South Africa), bismuth (Mexico, Belgium-Luxembourg, Peru, United Kingdom), gallium (France, Switzerland, Federal Republic of Germany, United Kingdom), germanium (Belgium-Luxembourg, China, France, Federal Republic of Germany), graphite (Mexico, China, Brazil, Madagascar), iodine (Japan, Chile, United Kingdom), ilmenite (Australia, Canada, Republic of South Africa), mercury (Spain, China, Algeria, Turkey), rhenium (Chile, Federal Republic of Germany), rutile (Australia, Republic of South Africa, Sierra Leone), selenium (Canada, United Kingdom, Japan, Belgium-Luxembourg), tellurium (Canada, United Kingdom, Peru, Belgium-Luxembourg), and vanadium (Republic of South Africa, South America, European Communities, Canada).

Source: Bureau of Mines, United States Department of the Interior. Mineral Commodity Summaries, 1988. Washington, D.C.

This has important implications for trends in U.S. merchandise exports and imports, as well as in the U.S. domestic economy.

In the 20 years between 1960 and 1980, nominal U.S. merchandise exports to the non-oil exporting developing countries (NOEDCs), other than the seven newly industrialized countries (NICs),* grew substantially from $3.5 billion to $36.7 billion (Table 1.2.1.). Over the same period, nominal U.S. merchandise imports from that group increased from $2.6 billion to $35.4 billion (Table 1.2.2.). Since these numbers represent changes in prices as well as changes in quantity, a more accurate measure of real growth appears in the <u>share</u> of these countries in total U.S. exports and imports.

While the real volume of U.S. exports (line two of Table 1.2.1.) more than tripled between 1960 and 1980, the non-oil exporting developing countries' share held roughly constant at 17% in 1960 and 16.6% in 1980. Their share in provision of U.S. imports fell from 17.2% in 1960 to 13.8% in 1980 while the real volume of those imports more than quadrupled.

In the five year period 1983 to 1988, excepting the seven NICs, the share of the non-oil exporting developing countries of U.S. exports has declined to 12.7% of total U.S. export value and the share of imports has fallen to 11% of total U.S. import value. Over the same period, the value of U.S. real imports rose 64%, while the value of imports from the NOEDCs rose only 32%. The value of U.S. real exports rose almost 60%, while the value of exports to the NOEDCs rose only 24%. Much of this decline was due to financial restraints on Latin American's ability to import, and involved a drop in real export volume to that region. The significance of the decline in U.S. exports to Latin America has been estimated to have cost the United States nearly 400,000 jobs during 1982.** Likewise the poor showing on the part of the NOEDC-nonNICs to increase their exports puts into question their ability to repay burgeoning debts.

U.S. trade with the developing countries should be seen as playing to the strengths of the U.S. economy. This trade operates to increase U.S. employment (especially high technology employment), productivity, and living

---

* Newly industrialized countries are Mexico, Taiwan, South Korea, Brazil, Spain, Singapore and Hong Kong.

** S. Dhar "US Trade w/Latin American: Consequences of Financing Constraints," Federal Reserve Bank of New York Quarterly Review, Autumn 1983. As quoted in GATT, International Trade 1986-87, pg. 23.

TABLE 1.2.1.
TRENDS IN U.S. MERCHANDISE EXPORTS

	1960	1970	1980	1983	1984	1985	1986	1987	1988
EXPORTS (IN BILLION $)									
EXPORTS (CONSTANT 1982 $)	67.8	111.6	244.8	197.9	211.1	210.4	218.0	249.9	313.8
EXPORTS (CURRENT $)	20.6	43.2	220.8	200.5	217.9	213.1	217.3	250.4	320.4
Industrial Countries	10.8	26.4	125.4	117.6	130.4	129.6	137.4	158.5	198.8
Developing Countries	6.3	12.9	91.2	75.7	78.6	75.8	72.8	82.7	118.1
Oil Exporting 1/	0.9	1.8	16.9	16.4	13.9	11.9	10.4	10.6	13.4
Non-Oil Exporting 2/	5.4	11.1	74.3	61.5	67.7	67.7	65.5	75.6	104.7
Top 7 NICs 3/	1.9	5.1	37.6	29.0	32.9	35.4	34.8	41.4	64.0
All Other NOE DCs	3.5	6	36.7	32.5	34.8	32.3	30.7	34.2	40.7
Other 4/	3.5	3.9	4.2	7.2	8.9	7.7	7.1	9.2	3.5
ANNUAL PERCENT CHANGE									
Industrial Countries		11	17.5	0.4	10.9	-0.6	6.0	15.4	23.5
Developing Countries		7.5	31.5	-13.2	-3.8	-3.6	-4.0	13.6	31.1
Oil Exporting		6.7	16.9	-25.8	-15.2	-14.4	-12.6	1.9	26.4
Non-Oil Exporting		7.6	35.3	-8	10.1	-0.1	-3.2	15.4	31.6
Top 7 NICs		14.4	35.3	-8.4	13.6	7.5	-1.8	19.1	41.3
All Other NOE DCs		2.4	35.4	-7.5	7.0	-7.2	-4.7	11.2	18.7
Other		6.9	-29.2	-25.1	-23.6	-13.5	-7.8	29.6	94.9
PERCENT DISTRIBUTION									
Industrial Countries	52.4	61.1	56.8	58.7	59.8	60.8	63.2	63.3	62.0
Developing Countries	30.6	29.9	41.3	37.8	36.1	35.6	33.5	33.0	36.9
Oil Exporting	4.4	4.2	7.7	8.2	6.4	5.6	4.8	4.2	4.2
Non-Oil Exporting	26.2	25.7	33.7	30.7	31.1	31.8	30.1	30.2	32.7
Top 7 NICs	9.2	11.8	17.0	14.4	15.1	16.6	16.0	16.5	20.0
All Other NOE DCs	17.0	13.9	16.6	16.2	16.0	15.1	14.1	13.7	12.7
Other	17.0	9.0	1.9	3.6	4.1	3.6	3.3	3.7	1.1

1/ Oil Exporting Countries as defined by the IMF: Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela
2/ IMF definition plus Taiwan
3/ Top 7 Newly Industrialized Countries (NICs): Mexico, Taiwan, South Korea, Brazil, Spain, Singapore, and Hong Kong
4/ Other = Non-Industrial Developed Countries, Communist, and unclassified

SOURCE: International Monetary Fund, Direction of Trade Yearbook, 1989, as adjusted for Taiwan. The price deflator is from The Economic Report of the President, 1989 implicit price deflator of exports p.313.

TABLE 1.2.2.

TRENDS IN U.S. MERCHANDISE IMPORTS

	1960	1970	1980	1983	1984	1985	1986	1987	1988
IMPORTS (IN BILLION $)									
IMPORTS (CONSTANT 1982 $)	64.5	146.4	267.7	277.0	351.4	381.4	420.3	434.5	454.0
IMPORTS (CURRENT $)	15.1	42.5	257	269.8	341.2	361.6	387.1	424.1	459.9
Industrial Countries	8.2	28.9	126.3	154.4	204	227.7	249.9	260.9	281.3
Developing Countries	5.6	11.1	129.5	120.8	120.1	115.5	115.1	136.1	177.7
Oil Exporting 1/	1.5	1.7	57.1	24.7	25.7	21.6	19.7	24.2	23.6
Non-Oil Exporting 2/	4.1	9.4	72.4	80.6	97.8	98.0	100.6	118.8	154.0
Top 7 NICs 3/	1.5	4.3	37.0	44.0	55.6	58.6	61.0	73.8	103.5
All Other NOE DCs	2.6	5.1	35.4	36.6	42.2	39.4	39.6	45.0	50.5
Other 4/	1.3	2.5	1.2	0.5	1.0	0.7	0.9	0.7	0.9
ANNUAL PERCENT CHANGE									
Industrial Countries		17.5	11.1	7.4	32.1	11.6	9.7	4.4	7.8
Developing Countries		9	20.9	3.7	16.8	-3.8	-0.3	18.2	9.4
Oil Exporting		-1.1	20.7	-21.2	4.0	-16.0	-8.8	22.8	-2.5
Non-Oil Exporting		11.7	21.1	13.5	21.4	0.2	2.6	18.1	11.3
Top 7 NICs		19	21.7	17	26.3	5.4	4.0	21.1	10.9
All Other NOE DCs		6.3	20.4	8.7	15.5	-6.7	0.6	13.5	12.3
Other		13.5	-22.7	14.3	35.7	7.6	20.1	22.6	28.6
PERCENT DISTRIBUTION									
Industrial Countries	54.3	68.0	49.1	57.2	59.8	63.0	64.6	61.5	61.2
Developing Countries	37.1	26.1	50.4	38.1	35.2	31.9	29.7	32.1	38.6
Oil Exporting	9.9	4.0	22.2	9.2	7.5	6.0	5.1	5.7	5.1
Non-Oil Exporting	27.2	22.1	28.2	29.9	28.7	27.1	26.0	28.0	33.5
Top 7 NICs	9.9	10.1	14.4	16.3	16.3	16.2	15.7	17.4	22.5
All Other NOE DCs	17.2	12.0	13.8	13.5	12.4	10.9	10.2	10.6	11.0
Other	8.6	5.9	0.5	4.7	5.0	5.1	5.7	6.4	0.2

1/ Oil Exporting Countries as defined by the IMF: Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela.

2/ IMF definition plus Taiwan

3/ Top 7 Newly Industrialized Countries (NICs): Mexico, Taiwan, South Korea, Brazil, Spain, Singapore, and Hong Kong

4/ Other = Non-Industrial Developed Countries, Communist, and unclassified

SOURCE: International Monetary Fund, Direction of Trade Yearbook, 1989, as adjusted for Taiwan. The price deflator is from The Economic Report of the President, 1989 implicit price deflator of exports p. 313.

standards over the long run. To illustrate this point, the rapidly growing developing countries, such as Korea, Brazil, Taiwan, Malaysia, Mexico, Thailand and even those with growing agricultural exports, such as Brazil, Malaysia, and Mexico, have become the fastest growing markets for U.S. agricultural exports. This is because, as income rises in developing nations, more food and more expensive kinds of food are purchased. During Brazil's period of rapid growth from 1970 to 1981, when its agricultural production was increasing almost 5% per year, agricultural imports from the United States increased 25% per year. Taiwan was a net grain exporter during the early 1950s. By 1986, Taiwan was importing 60% of all cereals consumed, mainly in the form of feed grains, to support diets which have shifted from staples to meat and poultry. In Malaysia, incomes rising partly as a result of growth in the agricultural sector have made possible increased agricultural imports from the United States. From 1967 to 1983, Malaysia's imports of U.S. food, feedgrains, soybeans, and other oil seeds grew from a wheat equivalent of about one million metric tons to almost 2.4 million metric tons. Soybean imports grew to support the livestock industry even though Malaysia is the leading exporter of palm oil which competes with soybean oil in some uses.*

The point is often made that the rapidly growing developing countries which are buying more U.S. agricultural exports also are sending more manufactured goods into U.S. markets. This surge in manufactured imports has provided American consumers with goods at low prices. A secondary effect of these low-priced imports has been low inflation. This import surge is now receding somewhat following the depreciation of the dollar but is still significant. Much of the production in the developing countries, particularly in the "Four Asian Tigers," is owned or controlled by U.S. firms, reflecting U.S. skills in investment, product development, international organization and marketing.

Some elements of U.S. management and organized labor have lobbied against imports alleging various kinds of injuries to increased U.S. imports of particular manufactured goods. But the injuries underlying these complaints have been due in varying degrees to a failure to recognize and adjust to changes in the world economy which tend to make the world more prosperous. Most sectors of the U.S. economy have responded adequately to world economic changes. The U.S. economy has been and remains the world's main source of change in processes and products. From nylon, the canning tomato, and mass retailing to

* "Foreign Economic Development Assistance and American Agricultural Exports," A.I.D. (working paper) February 5, 1987.

the personal computer, American innovations have forced adjustments on domestic producers and on those of other nations. The United States benefits along with all other countries when the world economy is made dynamic by invention, the creation of new industries, reduced protection, and the increased interchange of products, services and ideas. As less educated, less productive, and, therefore, lower paid foreign workers move up to low-technology mass manufacturing, American workers can move up to jobs of higher productivity in agriculture, high technology manufacturing, and services. These shifts in specialization will be facilitated by the current Uruguay Round trade negotiations.

Threats to free trade in the form of protective barriers represent a serious impediment to development efforts and debtor solvency. Agricultural products and textiles - two major developing country exports - remain the biggest exceptions to the trend to more liberal trade. Estimates of the costs to developing countries from protectionism by industrial countries range from 2.5% to 9% of developing country GNP.* For countries that are unfortunate enough to be both debt-burdened and specializing in a product for export into a protected industry, the aspiration that sufficient hard currency can be earned to make debt payments may be a fantasy.

Not surprisingly, developing countries are not the only participants faced with the increased costs of protectionism. Estimates of the cost to industrial countries range from .3% to .5% of GNP.*

Recent developments in the international trade sector have been both promising and worrisome. The U.S. Secretary of Agriculture announced on November 24, 1989, that the U.S. import quota on sugar would be increased by 13.5%. Although touted mainly as a reaction to production shortfalls, it nonetheless represents a willingness on the part of the U.S. Government to recognize claims of other GATT members that the U.S. sugar quota is not only in violation of GATT rules, but imposes severe hardship on the developing nations that rely on exports of sugar as a crucial source of foreign exchange. On the other hand, new textile policy being drafted by the Department of Commerce would allow the government to halt more textile and apparel imports. The new policy could affect Thailand, the Dominican Republic, Haiti, Guatemala and Costa Rica.**

---

* World Development Report, 1988, The World Bank, Washington, D.C., 1988, p. 16.

** Inside U.S. Trade Vol. 6 No. 39 - Sept. 30, 1988.

1.2.2. Investment and Credit

U.S. investment in and credit to the developing countries have important long-term and short-term benefits to U.S. interests. It is in the long-term U.S. interest to invest in and lend to the developing countries. Compared with these countries, the United States has a relative abundance of capital, technology, and management skills while they have a relative abundance of low-skilled labor and of undeveloped natural resources. Production is greater in both areas when they are linked by trade and investment. In this way, flows of direct investment and credit from the United States to the developing world bring about mutual enrichment. An example of this kind of symbiotic relationship occurred in the ninteenth century, when British capital and technology combined with American labor and resources. Athough there were some defaults, the general result was both increased U.S. indebtedness and increased U.S. creditworthiness; faster growth in both countries with consequently higher returns to capital, land, labor and technology; and increased trade. Similarly, productive capital flows reached into other countries and colonies as Europe served as the world's banker.

Credit from U.S. banks to the developing countries grew rapidly from 1960 to 1983 after which it plateaued at a high level (Table 1.3.). U.S. private investment in the developing countries grew moderately from 1960 to 1981 and continued to increase after 1981 but at a rate considerably slower than its pre-1981 rate (Table 1.3).

If the nineteenth century U.S.-United Kingdom pattern is appropriate for today's economic relations between the United States and the developing countries, only half of that pattern has been operating recently, and that half has run out of steam. That is, financial flows in the form of U.S. loans and investment first increased then stagnated, while the export surplus which should result from such flows to the developing nations has in fact become an import surplus. The United States has now a low savings rate and a high trade deficit. At the same time, however, it remains under pressure to continue lending and equity flows to LDCs. But the problem is that the United States does not enjoy the trade surpluses to finance these capital outflows.

The foreign assistance program provides the United States with a means to help achieve acceptable growth rates in the developing countries and to incorporate these countries in a healthy world economy. The policy dialogue and structural adjustment elements of U.S.-funded bilateral and multilateral assistance programs encourage the developing countries to make growth-oriented reforms. Growth will increase debt-servicing capacity and

TABLE 1.3.
U.S. Direct Investment Position Abroad and U.S. Banks' Claims on Foreigners
(Millions of Dollars, End of Period)

	1960	1970	1980	1981	1982	1983	1984	1985	1986	1987	1988
Total U.S. Direct Investment 1/	31,856	75,480	215,375	228,348	221,843	226,962	233,412	232,667	259,800	307,983	326,900
Developed Countries	19,310	51,819	158,214	167,439	164,312	169,975	174,057	172,750	194,280	232,690	245,498
Developing Countries	11,128	19,192	53,206	56,163	52,618	51,430	53,932	54,474	61,072	70,676	76,837
(as % of total)	(34.5%)	(25.4%)	(24.7%)	(24.8%)	(23.6%)	(22.5%)	(23.1%)	(23.4%)	(23.3%)	(23.0%)	(23.5%)
Unclassified	1,418	4,469	3,955	4,780	4,913	5,557	5,423	5,443	4,448	4,617	4,565
U.S. Direct Investment in Selected Countries											
Argentina				2,756	2,979	3,080	3,157	2,785	2,913	2,673	2,390
Brazil				8,247	9,013	9,026	9,551	9,480	9,268	10,288	11,810
Hong Kong				2,729	2,984	3,310	3,799	3,124	3,912	4,390	5,028
Mexico				6,977	5,584	5,006	5,380	5,087	4,623	4,898	5,516
Panama				3,784	4,404	4,519	4,061	4,611	5,525	6,131	6,140
SubSaharan Africa				NA	NA	2,270	2,420	2,074	1,884	2,385	2,506
U.S. Banks' Total Claims on Foreigners 2/	4,122	10,799	172,592	251,589	355,705	391,312	400,162	401,608	441,724	56,472	489,012
Developed	2,443	6,384	55,239	80,758	122,205	134,029	140,262	152,020	184,161	NA	
Developing	492	4,149	69,173	101,554	143,820	158,927	158,969	149,709	156,555	NA	
Other	1,179	68	2,059	2,332	2,488	2,596	3,008	3,245	5,618	NA	
Offshore 3/	8	198	46,121	66,945	87,192	95,760	97,923	98,235	97,923	NA	
U.S. Banks Claims in Selected Countries											
Argentina				7,522	10,974	11,740	11,043	11,462	12,091	11,996	11,826
Brazil				16,914	23,260	24,667	26,315	25,283	25,716	25,897	25,735
Hong Kong				4,126	6,668	8,429	7,283	6,797	8,307	8,218	10,136
Korea				7,324	9,407	9,889	9,285	9,226	7,182	5,148	5,219
Mexico				22,409	29,488	34,802	34,824	31,799	30,698	29,532	24,636
Panama				6,787	10,197	7,848	7,707	6,645	5,436	4,744	2,535
Venezuela				7,069	10,739	11,287	11,017	10,871	11,108	10,834	10,733

Sources: 1/ Department of Commerce, International Direct Investment, 1984. Department of Commerce, Selected Data on U.S. Direct Investment Abroad, 1950-76. Department of Commerce, Survey of Current Business, August 1989 Table 11 - Table 13

2/ Federal Reserve Bulletin, Nov. 1989, Table 3.18 pp. A62.

3/ Offshore banking centers = Bermuda, Bahamas, British West Indies, and Netherlands Antilles

Developed: Generally follows the assignment of countries made by the United Nations to include Canada, Western Europe, Japan, Australia, New Zealand, and the Republic of South Africa.

Developing: Generally follows the assignment of countries made by the United Nations to exclude the Developed Countries and Communist Countries in Europe and Asia but includes the rest of the world.

attract more and more productive credit and investment. In its World Development Report, 1987, the World Bank projected that, if developing countries' reforms were matched by fiscal and trade adjustments in the developed countries, annual world economic growth could average 5% overall and 3.9% per capita during 1986-95. At that rate, world income would rise 60% during the decade.

1.3. Humanitarian Concerns

Throughout U.S. history, religious groups, private voluntary organizations, foundations, and individuals have helped those less fortunate in other countries. The programs described in this document are only the most recent examples of American private and public efforts dating back to the thirteen colonies to reach out to the poor, the hungry, the untutored and the victims of man-made and natural calamities. The foreign assistance programs funded by the American people form an integral part of this tradition. The opening language of the Foreign Assistance Act makes a ". . . commitment to assist people in developing countries to eliminate hunger, poverty, illness and ignorance."

This spirit guides the planning, negotiation, implementation and evaluation of many long-term U.S.-supported activities in the developing world. The immediate relief of human suffering is the purpose of assistance to disaster victims. Where people are injured by flood, volcanic eruption, earthquake, landslide, fire, epidemic or storm; when droughts, locusts, or population pressures cause famine; when families are driven from their homes by man-made or natural disaster, the United States will always be quick to respond. Whether in Ethiopia, India, Mexico, or elsewhere, people in extremity will find American-supplied blankets, food, medicine and the technical services needed for recovery and prevention.

Other parts of our assistance program support longer-term attacks on the causes of world poverty. As explained below, this program has been associated with and has fostered a fundamental improvement in living conditions in the developing world.

1.4. Impact of the Foreign Assistance Program

While highly desirable, it is difficult to identify or quantify all of the results from the dollars and work invested in the foreign assistance program. However, the impact of the foreign assistance program is evident in countries which implement important policy reforms and is visible in particular development projects and humanitarian relief programs. Nonetheless, the primary value of the U.S. economic assistance program is as a component of U.S. foreign economic policy.

Due to its predominant role in the world during the post-World War II period, U.S. views of desirable international economic policies have strongly influenced events. During this period the United States, with few exceptions, has promoted policies to foster growth, competitive domestic markets, and the free international flow of trade, credit, and investment. The U.S. domestic market has been freer than that of any major industrial state and much freer than developing country markets. Its trade barriers have been among the world's least restrictive. It has allowed capital to move in and out of the country freely. It has never questioned the right of foreigners to invest in the United States. It has allowed world market forces to determine the international value of its currency.

The absolute size of the U.S. assistance program is so large that it has been able to play a major role in promoting policy reform, open borders, freer domestic and international markets, efficiency, and broad-based growth in developing nations. The world has moved in the direction sought by the United States. This is a fact, and it is a U.S. policy.

Since large-scale economic assistance to the developing countries began in the 1950s, their economic and social progress has been unprecedented in history. No other group of countries has experienced such rapid progress in per capita income, literacy, longevity, and child survival. For example, between 1950 and 1980 in the developing world, life expectancy increased from 42 to 59 years; and the mortality rate for children aged 1-4 declined from 28 to 12 per thousand. The Organization for Economic Cooperation and Development (OECD) has contrasted the relatively rapid growth of per capita income in the developing countries during 1960-84 with the strong but slower growth of per capita income in the currently industrialized countries during the preceding century. According to the OECD, per capita income in the currently industrialized countries grew at about 1.8% per year from 1850 to 1960. In contrast, during 1960-1984, per capita income growth in the developing countries averaged 3.4% annually, almost twice as fast.* The World Bank figures for the developing countries for 1965-86 are only a little less favorable. They show per capita income growing at just over 3.0% per year.** Clearly, all the data show that, in recent decades, many of the low-income developing countries bettered the earlier growth rates of the industrialized group which included the United Kingdom, the United States, Germany and Japan.

---

* Twenty-five Years of Development Cooperation, OECD, Paris, 1985, p. 12.

** World Development Report, 1988, The World Bank, Washington, D.C., 1988, p.222.

In surveying recent experience, one linkage stands out; greater economic freedom has characterized the fastest growing developing countries. The association of economic freedom with economic growth has not been lost on Russia and the East Bloc countries. Without consistent U.S. policies favoring freer trade and unrestricted capital movements, and without growth and liberalization in the developing world, the dismantling of the Berlin Wall and the choice of former Eastern European Communist countries--Poland, Hungary, Czechoslovakia, and East Germany--to build free market economies would have been unlikely. Given the importance of the United States during this period, it is reasonable to assume that a different policy together with less bilateral aid, less support for the multilateral banks, less emphasis on policy reform would have resulted in less prosperity, less world economic integration, less freedom, and less visible rejection of the Soviet economic model.

Chapter 2.

Situation of the Developing Countries

2.1. Classification of Developing Countries

One hundred and eighteen countries, with a combined population of well over three and a half billion people, are classified as developing.* They are historically and culturally diverse and cover over half the globe. Per capita income is a useful proxy and means to rank these countries along the continuum of development. Using a per capita income ceiling of $3,845 to distinguish the developed from the developing nations, the World Bank subdivides the developing nations into five groups as shown in Table 2.1. The lowest-income group where per capita income is $545 or less contains 42% of the countries and almost three quarters of the people. For hundreds of millions of people in this group, much in their working lives is little changed from centuries past. Yet, for the developing nations as a whole, two of the most comprehensive indicators of human progress show substantial improvements over the past 40 years. Between 1950 and 1989, average life expectancy rose 40%, from 42 to 58 years; and infant mortality (among children under five) fell from 180 per thousand in 1950 to an average of 79 per thousand for the period 1985-90.

2.2. Constraints to Development

Despite the economic diversity among these countries, which is only superficially captured by a per capita income ranking, most of them face similar constraints to development. Most of the people of the developing nations are intelligent and hard working. But, in contrast with residents of developed nations, they are born into societies with relatively few tools and machines per worker and with little knowledge of or access to advanced technology. Most oppressive for development, the institutions and the public policies of many developing nations inhibit the individual initiatives that are essential to growth and economic development. Each of these constraints merits elaboration.

2.2.1. Human resources

People in developing countries are relatively unproductive and, therefore, poor in great part because they lack knowledge and the education needed to increase their productivity.

---

* OECD classification, includes Taiwan and Hong Kong. Classification is for statistical purposes only.

Table 2.1

1988 PER CAPITA GNP
Ranked by 1988 GNP Per Capita
(US Dollars)

Income Group and Country	1988 GNP Per Capita
V (Over $3,845	
Cyprus	6,260
Barbados	5,990
Oman	5,070
Bahamas, The	n.a.
IV ($2,201-3,845)	
Seychelles	3,800
Portugal	3,670
Korea, Rep. of	3,530
Trinidad & Tobago	3,350
Venezuela	3,170
Gabon	2,970
Antigua & Barbuda	2,800
St. Kitts and Nevis	2,770
Yugoslavia	2,680
Argentina	2,640
Uruguay	2,470
Hungary	2,460
Algeria	2,450
Suriname	2,450
Brazil	2,280
Panama	n.a.
Romania	n.a.
III ($1071-2200)	
Malaysia	1,870
Poland	1,850
Mexico	1,820
Mauritius	1,810
Costa Rica	1,760
Syrian Arab Republic	1,670
Dominica	1,650
Fiji	1,540
St. Lucia	1,540
Chile	1,510
Jordan	1,500
Belize	1,460
Grenada	1,370
Turkey	1,280
Colombia	1,240
Tunisia	1,230
Paraguay	1,180
St. Vincent & the Grenadines	1,100
Ecuador	1,080
III ($1071-2200) (cont'd	
Jamaica	1,080
Botswana	n.a.
Lebanon	n.a.
Peru	n.a.
II ($546-1070)	
Cameroon	1,010
Thailand	1,000
El Salvador	950
Congo	930
Cape Verde	910
Guatemala	880
Honduras	850
Vanuatu	820
Tonga	800
Swaziland	790
Papua New Guinea	770
Marocco	750
Cote d'Ivoire	740
Dominican Republic	680
Zambabwe	660
Egypt	650
Diribati	650
Yemen Arab Republic	650
Philippines	630
Senegal	630
Western Samoa	580
Bolivia	570
Djibouti	n.a.
Nicaragua	n.a.
I ($545 or less)	
Mauritania	480
Comoros	440
Indonesia	430
Solomon Islands	430
Yemen, People's Dem Rep.	430
Sri Lanka	420
Guyana	410
Lesotho	410
Maldives	410
Ghana	400
I ($545 or less (cont'd)	
Central African Republic	390
Togo	370
Haiti	360
Kenya	360
Equatorial Guinea	350
Guinea	350
Pakistan	350
Benin	340
Sudan	340
China	330
India	330
Niger	310
Rwanda	310
Nigeria	290
Zambia	290
Uganda	280
Sierra Leone	240
Burkina Faso	230
Burundi	230
Mali	230
Gambia, The	220
Lao People's Dem. Rep.	180
Madagascar	180
Bangladesh	170
Nepal	170
Somalia	170
Zaire	170
Chad	160
Malawi	160
Tanzania	160
Ethiopia	120
Mozambique	100
Afghanistan	n.a.
Bhutan	n.a.
Guinea-Bissau	n.a.
Kampuchea, Dem.	n.a.
Liberia	n.a.
Myanmar	n.a.
Sao Tome & Principe	n.a.
Viet Nam	n.a.

Even in a society with well-conceived policies and institutions, a poorly educated citizenry would produce well below the potential they would reach with greater education. Although there have been striking increases in the percentage of children in school in the developing world, illiteracy, an easily observed indicator of under-utilized human capacity, remains widespread in many countries. In extreme cases, as in Haiti, 70% of the population cannot read. But even the more literate developing countries are generally deficient in apprenticeship programs, technical schools, research and development capabilities, and the managerial and policy development capacities which would enable people to adopt, develop, and use the knowledge which makes the developed countries so productive.

The concept of human capital embraces all the education, training, and experience that individuals acquire. It also embraces the nutrition and health that determine the physical capacity and mental alertness people bring to their work. In nutrition and health as in the educational elements of human capital, many of the people of the developing nations are ill equipped for the process of accelerated development. Hunger, intestinal parasites, poor nutrition and endemic diseases such as malaria weaken bodies and dull minds. Thus poor health is both a cause and an effect of poverty. Poor people cannot afford proper food or medical care, and nutritionally deprived people with chronic ailments do not make successful students, aggressive entrepreneurs, or highly productive workers. Further, with population growth rates in the developing world approaching 2.1%, this situation is only exacerbated.

2.2.2. Institutions

Generally, developing countries lack many of the specialized, competent, and trusted institutions taken for granted in the developed world. For example, in developing nations both rural and urban dwellers often lack land titles because institutions to survey and record property rights are deficient. Without secure titles, farmers and householders invest less than they otherwise would in productivity-enhancing improvements. Similarly, the courts which might protect property and contracts are often weak, unreliable, and open to subornation. The result is further weakening of incentives for savings, investment, and productive innovation. Financial markets can serve to allocate resources efficiently to productive uses. But such markets typically are weak in the developing world.

2.2.3. Infrastructure

Inadequate roads, ports, power, water and communications are also a cause and a result of low productivity and poverty. Because a country is poor, it can afford few of these expensive assets which are usually built ahead of demand and only pay off over the long term. The lack of such assets increases the cost and uncertainty of farm production and of business and government programs. Cases are commonplace where export orders cannot be filled because businesses cannot afford to stockpile large pre-production inventories, and essential production inputs reach the factory late because of poor transportation facilities. Also typical is the case of the tile factory in one of the most developed of the developing countries which cannot afford its own diesel generation plant and which loses batches of drying tiles whenever public power fails. Where infrastructure does exist, it is often badly maintained due to insufficient budgets and ineffective maintenance institutions. Private producers therefore are forced to cope with deteriorating roads, silted irrigation canals, and irregular electrical and telephone service.

2.2.4. Policy

Because of autocracy, statism, inappropriate theory, interest group pressures, and institutional incompetence, developing country governments have implemented policies that have resulted in the inefficient use of resources and severed the causal relationship between productivity and reward. For example, import substitution policies have saddled consumers with expensive, low-quality domestic production and penalized exports. Parastatals have drained government budgets of money that could have been more efficiently spent if left with the taxpayers. Price ceilings on fuel, meat, eggs, milk and cooking oil have led the producers of these goods to cut back on production and contributed to smuggling and to the corruption of government officials. Excessive government wage concessions to favored groups, rarely the poorest groups, have reduced employment and exacerbated fiscal deficits. Elaborate licensing requirements, extensive regulatory procedures, and other red tape have inhibited entrepreneurs. Misdirected government policies intentionally or unwittingly have distorted incentives in favor of overexploitation of the environment that result in fragile ecosystems being put to use in inferior, low-return and unsustainable uses.

Over the past 20 years, much has been learned by the providers and recipients of development assistance about the nature and impact of inappropriate economic policies. Reforms are now under way in dozens of countries, including several East Bloc countries. But the reform process is difficult. While market solutions are now accorded much greater respect than during the 1970s, many officials still remain overtly or covertly opposed to economic liberalization; and problems of sequencing and timing are only the most easily described of the difficulties encountered by reform-minded policy makers. Nonetheless, the significant point is that the decision has been made to opt for reform by both LDC governments and former Communist states as in Eastern Europe. In the latter case, this is nothing less than a revolutionary and historic occurrence. It signals to the world that the state-dominated, centrally controlled economic model of the Communist bloc is a dismal and utter failure.

2.2.5. Instability

Another key difference between developed and developing countries is the greater degree of instability in developing nations in military, political, economic, social and cultural respects. Because the future is less predictable in a developing country, the individual is less willing to make a long-term commitment to an investment, a job, a leader, a political party, a currency, an economic policy, or a principle. These varieties of instability have many causes, among which are:

- short national histories; most developing countries are ex-colonies;
- national boundaries set as a result of the geo-political rivalry of colonial powers rather than from a long period of nation building, particularly in Africa and Asia;
- ethnic and religious divisions and animosity, e.g., in Sri Lanka, Nigeria, India. These divisions often lead to the imposition of restrictions on entrepreneurial minorities; and
- governments overburdened by excessive responsibilities and the awakened demands of people who, in most developing countries, are becoming informed, urban, dissatisfied, mobile and politicized.

Instability encourages the brain drain, capital flight, a preference for trading and quick profits over investment and asset creation, hoarding, distrust of business partners and government leaders, and a pervasive domination of the immediate parochial interest over the long-term strategic effort.

2.2.6 Capital Constraints

The well is drying up. The evidence of a reduced supply of capital is painfully clear: the direction of net transfers (new loan disbursements less aggregate debt-service repayment) from the developed to the developing would went from a high of $26 billion in 1980 to a negative $28 billion in 1987.*

---

* World Bank, World Debt Tables, 1988-89 Edition, P.3

Strictly speaking, a net outflow of capital is not neccesarily a handicap. There is no need for alarm in cases where the rate of return from the borrowed capital in use exceeds the interest rate (in which case a state of negative net transfers is a natural consequence of debt repayment), where production is below full capacity so that output can be expanded without much new investment, or where there has been an expansion of exports --and thus high outward transfer of resources--accompanied with high growth. However, only occasionally do any of these exceptions apply to the developing world, and a condition of negative net transfers indicates the inability of highly indebted LDCs to get financing in international credit markets.

From commercial sources within the United States, the flow of foreign direct investment to the developing countries fell by 54% between 1981 and 1987. Private debt held by commercial banks fell by 14% over the same period.* Similar trends are visible in the figures for official U.S. bilateral assistance. A.I.D. assistance levels have fallen by 31% in nominal terms from 1985 to 1988, and by 37% in constant 1982 dollars over the same period (Table 5.1).

Locating surplus capital will not be easy. The United States has a high trade deficit, a high domestic deficit, and a low savings rate. Yet the demand for capital by the developing world continues to grow. Recent events in the East Bloc will put further pressure on the United States and other donors to locate and supply investment capital. Unless there is a change in U.S. policy, this will mean spreading fewer resources even more thinly over more recipients.

Although the trend toward reduced capital availability is undeniable, the one possible exception to the pattern is Japan. As the Japanese play an increasingly visible role in development lending, it may become apparent that they are capable of filling the gap.

2.3. Current Situation

The current situation of the developing nations is a mixture of positive and negative developments. On the positive side, the industrial economies have been expanding since 1982 and increasing their immense capacity to offer the markets, know-how, and capital that can support economic development. The Uruguay Round of trade negotiations has opened the way for a reduction in the subsidization and distortion of

---

* A.I.D. Development and the National Interest: U.S. Economic Assistance into the 21st Century, 1989, p.131.

the agricultural commodity trade on which many of the poorer developing countries depend. The 1980s have seen a trend toward democracy with elected governments taking power in Brazil, Argentina, Peru, Bolivia, El Salvador, Guatemala, the Philippines, Pakistan and elsewhere. Strong, representative governments should make it easier for people to make and carry out the hard national decisions on debt, inflation, fiscal policy, savings and divestiture.

As Table 2.2. shows and as mentioned in the previous chapter, the developing countries experienced fundamental progress during the twenty years between 1965 and 1986. Per capita incomes grew at historically unparalleled rates. In continuation of one of the key developments of the twentieth century, in virtually all developing countries, there has been a rapid rise in the number of children in school. Infant and child mortality rates declined by over one third to over one half, and life expectancy increased twelve years on average. Over the last six years, oil prices and inflation have declined. The end of the debt crisis may be within sight: the international financial system did not collapse and a more cooperative spirit has arisen between creditors and debtors. There have been numerous Paris Club rescheduling agreements for developing countries, and debt service payments as a percentage of exports have been declining since 1986 (Chart 2.1). Never has there been so much consensus on the importance and impact of policy in causing and in alleviating economic problems.

On the negative side, living standards have declined for many developing countries during the 1980s. The terms of trade for non-oil exporting developing countries have been dismal; for six out of the last ten years this ratio has been negative. In 1986 and 1987, there was an improvement in trade terms (indicating that fewer of a country's exports are required to purchase a given level of imports). But in 1988, trade terms worsened again (Chart 2.2).* Net resource flows to the developing countries, including export credits and private lending and investment, declined from $146.7 billion in 1980 to $82 billion in 1986 (at 1986 prices and exchange rates).** Most of this decline was due to a massive reduction in net commercial lending from the developed to the developing countries. The prolonged expansion in the industrial world is made vulnerable by protectionism and by domestic and international imbalances; slow growth, even recession, are

---

* IMF, World Economic Outlook, Oct. 1989, Table A28 (1990 is projected figure).

** OECD DAC, Development Cooperation, 1988 Report, Table III-1 p.47.

Table 2.2.

Basic Indicators of GNP Growth and of Improvement in Health and Education between 1965 and 1987

	GNP Per Capita	Avg Annual Growth Rate: GNP Per Capita	Avg Annual Growth Rate: Aggregate GDP		Infant Mortality Rate (per 1,000 live births)		Child Mortality Rate (per 1,000 children aged 1-4)		Crude Death Rate (per 1,000 pop.)		Life Expectancy at Birth (male)		Number Enrolled in Primary School as % of Age Group	
	1987	1965-87	1965-80	80-87	1965	1987	1965	1985	1965	1987	1965	1987	1965	1986
Low-Income Countries 1/	$ 290	3.1	5.4	6.1	122	76	19	9	16	10	47	61	74	103
Lower-Middle Income 2/	$1200	2.2	5.7	2.8	133	61	22	11	17	8	47	64	75	104
Upper-Middle Income 3/	$2710	2.9	6.7	3.4	83	50	11	4	11	8	58	67	96	97
Industrial Market Economies	$14,670	2.3	3.6	2.7	24	9	1	(.)	10	9	68	76	107	107

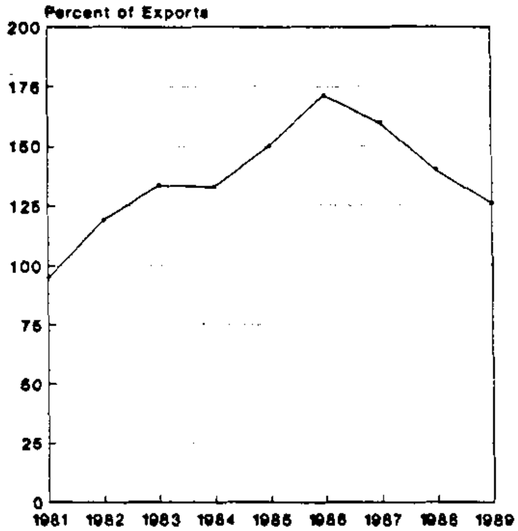
1/ IBRD definition (World Development Report, 1989): Per Capita GNP of less than $480 (in 1984 dollars)
2/ IBRD definition: Per Capita GNP of $480 to $1940 in 1984 dollars.
3/ IBRD definition: Per Capita GNP of $1940 to $6000 in 1984 dollars. A.I.D. does not regard countries with a per capita GNP above $2500 as LDCs. The Upper-Middle Income countries include some developed countries such as Israel and Greece.
4/ This figure is heavily weighted by China with numbers enrolled in primary school counted at 113% of the primary school-age population.

Source: International Bank for Reconstruction and Development (IBRD), World Development Report, 1989, Tables 1, 2, 27, 29 and 32.

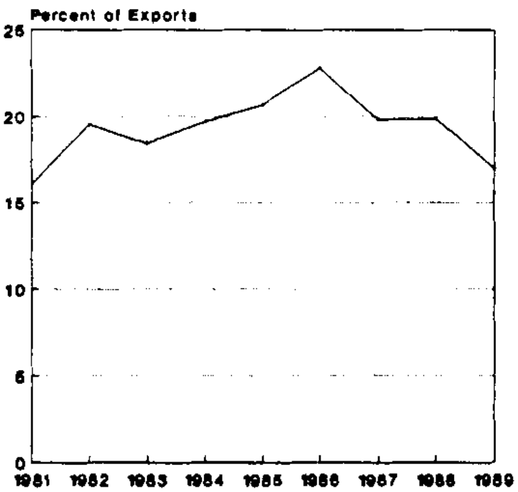
Doc #1332C

Chart 2.1

Ratio of External Debt to Exports
(All Developing Countries)



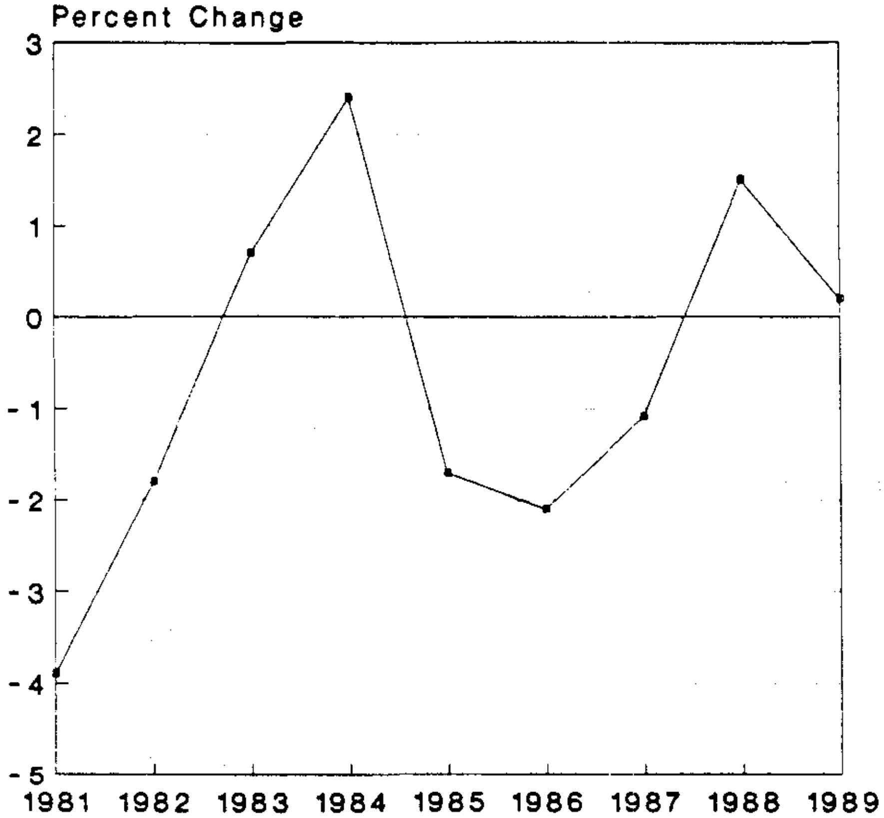
Ratio of Debt Service
Payments to Exports
(All Developing Countries)



Source: International Monetary Fund,
World Economic Outlook
Oct. 1989, Table A45

Chart 2.2

Terms of Trade:
Annual Percent Change
(Non-Oil Developing Countries)



Source: International Monetary Fund,
World Economic Outlook
Oct. 1989, Table A28

possibilities which would impact adversely on developing countries' exports and growth. Finally, many developing countries still suffer from weak institutional capacities, while maintaining policies that encourage inefficient uses of resources and barriers that impede internal and external competition. To overcome these obstacles to development, further policy reforms and structural adjustments must be implemented.

2.4. Implications for U.S. Policy

The situation of the developing countries has clear implications for the near-term U.S. policy objectives. These objectives are as follows:

- maintain industrial world economic growth by:
  - o reducing the U.S. fiscal deficit,
  - o reducing trade imbalances with Germany and Japan, and
  - o avoiding protectionism;

- further liberalize trade, especially through the Uruguay Round, to allow world market forces to keep shifting world resources to their most productive uses even as technological and other changes continually modify the location and character of "most" productive;

- maintain active coordination with multilateral institutions and with other bilateral donors to strengthen the international financial system and to assist economic liberalization in and resource flows to the developing nations;

- keep aid flowing to debtor nations undertaking serious structural adjustment long enough so reforms can become established to restore satisfactory growth rates;

- further develop an international consensus to deal with high debt nations not likely to attain international financial solvency in the near term; and

- continue to support multilateral programs to identify and treat environmental depredation aggravated by deficient or inappropriate development policies, e.g., pollution, deforestation and species elimination.

Chapter 3.

U.S. Policies and Programs to Promote Broad-Based Economic Development and Stability

3.1. Background

Large-scale U.S. economic assistance began after World War II. The initial objective was the reconstruction of war-torn economies in Europe and the Far East. As those economies recovered, U.S. support shifted to the growing number of developing countries, many of which were just gaining political independence. With over half the world's population, the developing countries contained the world's worst depths of poverty and offered favorable conditions and potential for political, military and economic instability. Eventually, most of the countries the United States had helped to recover from World War II joined the United States in aiding the developing nations. While the United States remains the largest single aid donor, accounting for 21% of official development assistance provided in 1988, Japan's share is rising rapidly and now rivals that of the United States at 19%. Most of the other donors have, however, overtaken us in terms of the percentage of GNP devoted to foreign assistance (Table 3.1.). Norway, the Netherlands, and the other Scandinavian countries are now at the top of that list in percentage terms.

Most U.S. assistance flows bilaterally and directly to developing countries through the programs and field missions of the Agency for International Development (A.I.D.). The remainder moves indirectly through U.S. support to multilateral development banks, United Nations (U.N.) programs, and private voluntary agencies. For example, in FY 1989, U.S. development budget authority was $7.5 billion for bilateral assistance and $1.5 billion for multilateral assistance (see Table 5.2., Chapter 5). During the last 10 years, U.S. economic assistance has increased sharply in current dollars while rising some 31% in real volume and declining somewhat as a percentage of GNP.*

3.2. Objectives of U.S. Policy

Foreign assistance is guided by long-standing objectives of U.S. foreign policy. These include:

- to maintain world peace;

---

* Source: Various A.I.D. Congressional Presentation Main Volumes. Price deflator from the <u>Economic Report of the President</u>, 1988, p. 253.

Table 3.1.

Official Development Assistance of OECD/DAC Countries
as Percent of GNP (Net Disbursements)

	1985	1986	1987	1988
Australia	0.48	0.47	0.34	0.47
Austria	0.38	0.21	0.17	0.24
Belgium	0.55	0.48	0.48	0.40
Canada	0.49	0.48	0.47	0.49
Denmark	0.80	0.89	0.88	0.89
Finland	0.40	0.45	0.49	0.59
France (incl. DOM/TOM)*	0.78	0.70	0.74	0.72
Germany	0.47	0.43	0.39	0.39
Ireland	0.24	0.28	0.19	0.20
Italy	0.26	0.40	0.35	0.39
Japan	0.29	0.29	0.31	0.32
Netherlands	0.91	1.01	0.98	0.98
New Zealand	0.25	0.30	0.26	0.27
Norway	1.01	1.17	1.09	1.10
Sweden	0.86	0.85	0.88	0.87
Switzerland	0.31	0.30	0.31	0.32
United Kingdom	0.33	0.31	0.28	0.32
United States	0.24	0.23	0.20	0.21
Total DAC countries	0.35	0.35	0.34	0.36

Source: OECD, Development Cooperation, 1988 Report, Paris, 1989, Press Release pg. 3.

---

* French Overseas Departments and Territories

- to protect the independence of nations and promote their internal freedom;

- to maintain and expand an open and equitable international economic system.

Foreign assistance serves these objectives in several ways. In an open and increasingly interdependent world economy, foreign assistance helps countries to grow and to create economic opportunities and a better quality of life for their citizens. Foreign assistance complements and encourages flows of direct investment, private credit, and free trade. A.I.D. policy dialogue actively combats the tendency in many countries toward autarky, economic centralization, and economic controls. It promotes the diversification of political and economic power, and it encourages developing countries to participate in the free world economic system which has been so beneficial for growth since World War II. Increasing prosperity leads in turn to further integration into the world economy with consequent freer movement of investment, credit, technology and trade among nations and the free movement of prices and goods within nations.

U.S. legislation directs foreign assistance to the poorest countries and to the poorest people. It relieves poverty directly through humanitarian assistance and through development projects in agriculture, nutrition and health. Less directly, it alleviates poverty by complementing a variety of other forces contributing to economic development and a more prosperous world. When humanitarian aid helps poor countries to overcome expensive and destabilizing calamities and when development assistance helps them to break through ancient barriers to growth, they are less apt to be sidetracked from the long-term policies and discipline essential for development.

By giving developing countries a stake in the world economic system and by providing the basis for dialogue regarding their economic policies, foreign assistance protects the growing U.S. interest in economic relations with these countries. By contributing to prosperity, foreign assistance increases the likelihood of stability within nations. By reinforcing other influences linking the developing economies to the international free market, it gives these countries an incentive to maintain interdependencies and to resolve conflicts peacefully.

3.3. Strategic Objectives of Development Assistance

As noted previously, foreign assistance is an investment in the dignity and freedom of all people and the economic health of all nations. To be effective, it must be a joint investment -- by developing countries, the United States and other developed countries and multilateral organizations. It must also reflect broad participation by private sector organizations, corporations and other institutions. Most of all, development must engage the energies, talents and vision of the people we seek to help. Increasing the ability of people to make choices and to determine their own destinies must be the aim of all development efforts.

Building on these principles -- and recognizing the need for clear goals -- A.I.D. has defined three fundamental objectives that provide a useful and appropriate framework for its work.

a. <u>Economic growth that is broad-based and sustainable in both economic and environmental terms</u>

A consensus is emerging concerning the central importance of broad-based and sustainable economic growth in the development process. When economies are growing and are characterized by full participation of the citizenry, individual and family incomes rise enabling people to obtain adequate food, health care, education and shelter. Where there is no significant economic growth, improvements in living standards are tenous at best.

For growth and its benefits to be broad-based, economies must be open and accessible. Private firms must be able to compete with governments in the provision of services and in all aspects of industrial and agricultural production and distribution. Similarly, entrepreneurs, including the smallest, must have easy access to the market, and individuals must have a fair chance to compete for each new job that emerges as the economic growth process takes hold.

The sustainability of development progress depends not only on a long-term commitment to sound economic policies. It also depends, to an ever-increasing degree, on whether adequate steps are being taken to protect the natural environment.

Until relatively recently, attention to such environmental ills as water and air pollution, deforestation and soil erosion was not considered to be a priority concern of development agencies. But awareness has spread of the fragility of the world's environment, of man's capacity to do irreparable damage to it and how critical protecting the precious natural resources of developing nations is to their future and, indeed, to the future of all the world's inhabitants. A.I.D. recognized the importance of the environment to sustainable development early on and became active in this area more than a decade ago.

Protecting the environment and formulating development policies and programs that are environmentally sound are now absolute priorities at A.I.D. We are committed to working with developing nations and other donors to hasten the day when environmental degradation is a thing of the past, and the plundering of precious natural resources for short-term gain is recognized as the long-term tragedy that it is.

b. Human capacity development with particular emphasis on health and education levels required to enable all citizens to contribute to and benefit from economic progress.

While convinced that economic growth is the objective that most benefits societies from bottom to top, A.I.D. remains committed to assisting developing country governments and private sector service providers to reach the poor with food and essential health and family planning services and to provide them with a basic education. Without these investments in human capital, overall economic growth is neither attainable nor meaningful.

People are both the ultimate beneficiaries of economic growth and, at the same time, the actors who must bring it about. For individuals to participate effectively in the development process -- and to rely increasingly upon their own incomes for the goods and services they need -- they must survive the diseases of childhood, be healthy and well-nourished and have the basic education and skills needed in the workplace.

Twenty-five years ago, one in four children in developing countries died before his or her fifth birthday. Today, on average, about seven out of eight survive to age five, and the rates are improving in most countries. However, there remain some poor countries in which no significant progress has been made. About 80% of children now attend primary school in developing countries, while 20 years ago, the majority did not attend. At the same time, there remain countries where most children, especially girls, do not go to school, and the number of adult illiterates continues to grow.

Continuing the momentum and sustaining past gains in the presence of rapidly growing populations and fragile economies are difficult challenges and remain a critical focus of development efforts.

c. Pluralism, including the promotion of democracy, freedom and competition in the political, economic and social institutions of a nation.

The final ingredient that is integral to the success of any society is political, social and economic pluralism and the rule of law. In simple terms, pluralism means the right to choose -- to make all of the daily choices that add up to control of one's own destiny. Pluralism and the policies that promote openness, fairness and opportunity are natural in societies where individual responsibility is valued and where people willingly work together to the benefit of society as a whole.

The importance we attach to the promotion of pluralism stems from deep within the American experience. We value our freedom. We believe that all people should be free. We also believe that freedom helps foster economic progress. As societies move toward openness and pluralistic approaches to governance, people gain a real stake in their economies, and they begin to invest accordingly. When that occurs, the chances for achieving broad-based and sustainable growth expand dramatically.

Political freedom has gained dramatically during the 1980s. The reopening of Eastern Europe after more than 40 years was the decade's appropriate finale. Creating the democratic institutions that are needed to sustain these new political freedoms is a central task before these nations. Equally important is the creation of institutions for viable, market-oriented economies.

Taken together, the three fundamental development goals A.I.D. has articulated form a strong framework -- one that is relevant across the spectrum of developing nations that A.I.D. assists. They support country-based programming that responds in a direct and efficient fashion to the difficult problems developing nations face.

A.I.D.'s bilateral programs are tailored to the needs and conditions of each particular country, drawing from a panoply menu of approaches and activities that are supported through both regional and centrally funded programs. Not only the activities, but also the specific goals and objectives of A.I.D.'s bilateral assistance programs are designed to reflect the reality of a particular setting. While there is a universal need for sound economic policies, there is no detailed global recipe for development, nor can success be measured by narrow, globally determined targets.

3.4. Bilateral Assistance Programs

"Bilateral" means that a program is executed by the U.S. Government in direct cooperation with a public or private organization in a developing country. A bilateral program does not flow through a multinational donor organization such as the United Nations or the World Bank's International Development Association; nor, with rare exceptions, does a U.S. bilateral program contain funds from another donor. Line-item designations in Congressional spending bills separately identify our contributions to multinational organizations and the elements of the foreign assistance programs administered on a bilateral basis. Below are brief descriptions of the major elements of the U.S. bilateral assistance program.

3.4.1. Development Assistance (DA)

This represents the basic mode of economic assistance governed by the development objectives of the Foreign Assistance Act. Most DA funds are used for development projects. The Development Assistance program implements the Congressional mandate of 1973 to seek a broadening of economic opportunities to the least privileged and to ensure the participation of the poor majority in the development process. DA projects are concentrated in countries where U.S. assistance is most needed, where there is a clear commitment to broad-based growth, and where the United States has a strong long-term interest in development. While initially there were only four functional accounts, Congress subsequently added accounts to meet new concerns. DA currently is allocated among eight functional accounts: Agriculture, Rural Development, and Nutrition; Population Planning; Child Survival; Health; AIDS Prevention and Control Fund; Education and Human Resources Development; Private Sector, Environment, and Energy; and Science and Technology. During the period FY 1979 through FY 1990 allocations for these accounts increased from $1,192.3 million to $1,937.3 million. In real terms, obligations for the DA accounts continue to decline, while Congressional earmarking is on the increase. For FY 1991 A.I.D. is requesting $1.231 million for development programs previously funded under the above functional accounts.

3.4.2. Economic Support Fund (ESF)

The ESF account is used to promote economic and political stability in areas where the United States has special security interests and has determined that economic assistance is essential to assist the host government to maintain peace or avert major economic or political upheavals. ESF is provided as cash transfers or through commodity import programs for recipient countries which are experiencing balance-of-payments problems, and finances development projects where long-term economic development is of highest priority. ESF is also provided to countries in conjunction with military base or access rights agreements. To the extent possible ESF assistance conforms to the basic policy directions applicable to development assistance. Israel receives the largest share from this account. Other major recipients are Egypt, Pakistan, the Philippines, and countries of Central America. ESF levels experienced a decline from FY 1987 ($3.91 billion) to FY 1989 ($3.4 billion), and were straight-lined for FY 1990 when the FY 1990 supplemental request of $500 million for Panama is excluded. In FY 1990, 82% of the ESF account was earmarked by Congress.

3.4.3. Development Fund for Africa (DFA)

In the FY 1988 appropriations act, Congress approved the Administration's request for this special funding mechanism for sub-Saharan Africa to replace the traditional functional account divisions, as well as the Sahel Development Program account (the DFA excludes ESF also requested for Africa). This Fund allows for greater flexibility in addressing the complex problems that continue to beset Africa, addressing them in both the short to medium term and the long term. This flexibility allows A.I.D. to be more responsive to African countries which are committed to better and fairer economic management. A.I.D. has increasingly concentrated its resources on a small group of countries selected on the basis of their economic performance and potential for growth, as well as their need. Budgetary concentration on 20 priority countries has been accompanied by more focused and targeted programs within each country. A.I.D. programs focus on four objectives: (1) improving the efficiency and equity of public sector activities; (2) promoting competitive market development; (3) increasing the potential for long-run increases in productivity; and (4) improving food security.

3.4.4. Special Assistance Initiatives (SAI)

In line with efforts to have the flexibility to respond to rapidly changing global events recently, Congress approved use of this new fund in FY 1990 legislation. Current plans include using this fund for economic initiatives in the Philippines and Eastern Europe.

3.4.5. Food for Peace (PL 480)

The U.S. Government's food aid program serves a variety of objectives -- humanitarian, economic development, foreign policy and market development of U.S. agricultural exports. There are two statutory sources of food aid: Public Law 480 (P.L. 480), the Agricultural Trade and Development Act of 1954, as amended, and Section 416(b) of the Agricultural Act of 1949. The Department of Agriculture and A.I.D. share primary responsibility for administration of the program.

- Title I of P.L. 480 authorizes the provision of long-term, low-interest loans to friendly countries to purchase U.S. agricultural commodities to sell for local currencies in their commercial markets. Self-help measures contained in Title I agreements assist in the development of better infrastructure for food production, storage, marketing and distribution.

- Title III of P.L. 480 authorizes concessional food sales to eligible recipient countries over a multi-year period and includes a provision for offset of the repayment obligation when local currency proceeds and/or commodities are used for agreed upon development purposes.

- Title II authorizes food donations on a grant basis to benefit needy people through private and voluntary organization (PVOs), the U.N. Food and Agriculture Organization (FAO) and its implementing agency, the World Food Program (WFP), international relief organizations and through various government-to-government programs. Title II commodities can also be sold commercially in local markets (monetized), with the proceeds being used for specific development projects.

- Section 416 authorizes the use of U.S. Government surplus commodities, when available, mainly for programs similar to those authorized under Title II of P.L. 480.

- Food for Progress is a relatively recent program, which can draw on resources available under either Title I or Section 416 authorities. It is designed to expand free enterprise elements of the economies of developing countries through changes in commodity pricing, marketing, import availability and increased private sector involvement.

While the U.S. Government's food aid program is best known for meeting the emergency and short-term needs of the hungry, there is growing recognition that food aid can play an important development role in helping to resolve those problems which prevent developing countries from meeting their own food needs. During FY 1991, A.I.D. will continue to explore and support alternative approaches to strengthen the effectiveness and self-sustaining developmental impact of food aid programs.

Amounts allocated to the various titles of P.L. 480 programs are shown in Table 5.1 in Chapter 5. Between 1979 and 1989, annual funding obligations have ranged from $785 million to $1,100 million for Title I and from $549 to $1,068 million for Title II. For FY 1991, $817.0 million is being proposed for Titles I and III, and $646.0 million is proposed for the Title II program (see also footnote 3 to Table 5.2).

3.4.6. Housing Guaranty Program (HG)

This is A.I.D.'s principal program for assisting developing countries to address their enormous shortages of adequate shelter for lower-income people. The program guaranties housing loans from American banks to developing countries and provides for technical assistance, institutional development, and training. It encourages private sector solutions to housing problems.

Shelter programs make an important contribution to improving the quality of life of poor families. They also contribute to a recipient country's economic growth and employment objectives. Housing Guaranty (HG) loans can also play a crucial role in helping less developed countries (LDCs) to establish sound policies, including the legal and regulatory frameworks, for their shelter programs. HG loans and associated technical assistance demonstrate to local entrepreneurs and institutions that low-cost housing can be financially viable. The HG program finances infrastructure and services that usually cannot be provided by the families themselves, including slum and squatter settlement upgrading, site preparation, provision of services, core housing, and community facilities.

Project technical assistance and training funds requested for 1991 will be used to support the loan guaranty program and to strengthen urban analysis capabilities which will provide the framework for more effective urban programs.

3.4.7. International Disaster Assistance

The Office of U.S. Foreign Disaster Assistance (OFDA) is responsible for providing relief assistance to foreign nations affected by natural or man-made disasters and providing preparedness assistance in contingency planning, training, preparedness, warning and mitigation. The goal of this program is to save lives and reduce the suffering of victims in foreign countries stricken or imminently threatened by disasters. Property loss and subsequent economic and social disruptions associated with disasters are a major deterrent to A.I.D.'s and the developing countries' goals of fostering broad-based economic growth and sustaining the viability of development assistance programs.

In FY 1989, OFDA responded to 54 disasters. In addition to these disasters, OFDA provided continued relief assistance to countries in response to prior year disaster declarations. OFDA administered a program totaling $48.8 million and responded to critical needs worldwide, including:

- floods in Thailand, the Philippines, Indonesia, Sri Lanka, Republic of Korea, Peoples Republic of China, Gabon, Malawi, Djibouti, Mali, Ghana and Peru;
- fires in Burma and Guineau Bissau;
- earthquakes in the Soviet Union, China and Indonesia;
- severe storms in the Philippines, Bangladesh, Costa Rica, and Western Samoa;

- o epidemics in Togo, Comoros, Ethiopia, Nigeria, Benin, and Bolivia;
- o civil strife and displaced persons in Mozambique, Sudan, Somalia, Haiti, Lebanon and Angola;
- o insect infestations in Gambia, Senegal, Mauritania, Cape Verde, Morocco, Sudan and Jordan;
- o droughts in Togo and Uganda;
- o food shortages in South Africa;
- o expellees in Senegal, Mauritania, and Gambia; and
- o accidents/emergencies in the Soviet Union and Argentina.

In FY 1990, OFDA will work closely with A.I.D.'s regional bureaus to call their attention to the need to incorporate humanitarian responses to cyclic disasters and other recurring phenomena into overall regional development strategies. OFDA will review and revise the International Disaster Program policies, goals and objectives to assist A.I.D.'s bureaus and overseas missions in gaining an awareness and concern for the effects of disasters on the development process.

Future direction will focus on: 1) more closely linking disaster relief to ongoing development efforts, 2) development of communications and information systems to facilitate relief operations, 3) assessment of needs following a disaster, 4) promotion of disaster mitigation, institution building and technology transfer in target countries, and 5) enhancing host country ability to respond to their disasters immediately. A.I.D. is requesting $40.0 million for International Disaster Assistance in FY 1991. The proposed program includes $34.0 million for worldwide disaster relief (including stockpiles) and $6.0 million for non-relief activities such as preparedness, mitigation, and warning.

OFDA's emergency relief coordination capability will be greatly enhanced in FY 1991. We will emphasize expanding public awareness of disaster threats and means of avoidance, as well as establish close intergovernmental cooperation through the U.N. International Decade for Natural Disaster Reduction. In FY 1991, OFDA will encourage other A.I.D. bureaus, U.S. government agencies, private industry, international financial institutions (e.g. World Bank and Asian Development Bank), international organizations, (Organization of American States and Pan American Health Organization), private agencies (Partners of the Americas), and the reinsurance industry to improve disaster planning and to integrate disaster mitigation, preparedness and relief principles into their projects.

3.4.8. American Schools and Hospitals Abroad (ASHA)

The ASHA program, also administered by A.I.D., assists private, non-profit, American-sponsored overseas schools and hospitals which serve citizens of other countries and demonstrate American ideas and practices in education and medicine. ASHA assistance increases the capacity of those institutions to transfer American technical ability and to educate a cadre of citizens who can communicate, share values, and work with Americans in business, government, the sciences, and other mutually benefical endeavors. ASHA grants help selected institutions to build and renovate facilities, purchase equipment and, in a few cases, meet operating costs of educational and medical programs. In FY 1989, 42 institutions received grants totaling $33.5 million. In the five-year period, FY 1985-1989, 90 institutions have been assisted with a total of $172 million in grants. These institutions annually educate 200,000 students from more than 100 countries. They serve more than four million persons each year at hospitals which link patient services with medical education and research.

3.4.9. Private and Voluntary Organizations (PVOs)

Private and voluntary organizations (PVOs) play a significant role in relief and in development. Although the PVOs registered with A.I.D. vary tremendously in size, scope and capability, they all work to improve the quality of life of people in less developed countries. Over the course of 17 years, A.I.D. assistance to PVOs has increased dramatically from $39 million in FY 1973 to $456 million for FY 1989. At a time when A.I.D.'s own resources are severely limited, PVO programs that combine A.I.D. and PVO resources are an increasingly important part of A.I.D.'s effort to foster self-sustaining development in the third world.

In recent years, a hallmark of PVO efforts has been the shift in emphasis from conducting short-range relief projects to planning and implementing long-term programs and developing indigenous institutions with activities geared toward eliminating the underlying causes of world hunger and poverty. While continuing to be responsive to immediate human needs, particularly during emergencies, many PVOs are now involved in projects contributing directly to growth and economic development. The A.I.D./PVO partnership is based on a mutual commitment to overcoming problems of hunger, illiteracy, disease and premature death in the poorer countries of the world. Our collaborative successes flow from an understanding of and respect for the particular strengths each brings to the development effort.

In its work overseas, the diverse PVO community embodies the traditional American values of pluralism, voluntary action, and a concern for others. PVOs provide direct channels for private, people-to-people efforts and have the flexibility to operate in areas not always open to other avenues of development assistance. By joining forces and complementing each other's capabilities and scope, A.I.D. and PVOs can accomplish more together than either could alone. A.I.D. is committed to strengthening this partnership.

3.5. Associated Financing Policies and Practices

A.I.D. has three types of associated financing programs. One is designed to match financial offers made by foreign competitors of U.S. exporters. Another provides concessional resources for cofinancing with other official sources. A third program provides non-concessional finance to firms and intermediate credit institutions in developing countries. Criteria that govern the operations of these programs are consistent with the OECD Development Assistance Committee's (DAC) Associated Financing Guidelines.

3.5.1. Enhancing the Competitiveness of U.S. Exporters

The Trade Financing Facility (TFF) for Egypt was created in 1981 and under special circumstances draws from the U.S. Commodity Import Program for Egypt. Its purpose is to match the terms of mixed credits offered by foreign competitors of U.S. exporters. Under the TFF, A.I.D. grants can be combined with export credits provided by the U.S. Export Import Bank and/or with private funds. A second program, the Tied Aid Credit Program, was established under the provisions of the Trade and Development Enhancement Act of 1983 and is administered by A.I.D. It protects a U.S. firm whose low bid on an international contract is threatened by subsidized credit from the government of a competing firm.

3.5.2. Cofinancing Arrangements with Official Sources

Cofinancing of development projects with other bilateral or multilateral official institutions has been a long-standing A.I.D. practice. Cofinancing allows A.I.D. 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.

3.5.3. Private Sector Revolving Fund

Since late 1981, when A.I.D.'s Bureau for Private Enterprise was established, A.I.D. has been managing an investment program to support the growth of private enterprise. For this purpose, A.I.D. extends loans at or near market terms directly to private firms and financial institutions. When a financial intermediary is used, it may pass on the capital in the form of debt or equity to small or medium-sized firms.

3.6. Other Related U.S. Programs

3.6.1. Peace Corps

The Peace Corps continues to play an important role in U.S. overseas development efforts. Over 5,750 Peace Corps volunteers (PCVs) work with over 242 organizations and institutions, many of which are private voluntary organizations, in some 63 countries. PCVs work at the grass-roots level with host country sponsors in such areas as microenterprise, food production, health and nutrition, education, water and sanitation, and natural resources conservation. When PCVs return home, they better understand developing countries and how all Americans are affected by their problems. Over 500 have joined A.I.D. Their overseas experience adds to the effectiveness of development programs in A.I.D. and elsewhere. The Peace Corps and A.I.D. continues to identify areas where cooperation will enhance foreign assistance programs. In FY 1990 microenterprise will be a major focus. In Africa, the Peace Corps continues to focus on helping improve food production.

3.6.2. Inter-American Foundation (IAF) and African Development Foundation (ADF)

The Inter-American Foundation, a federally chartered public corporation, was created in 1969 by Congress to provide new approaches for U.S. development assistance in Latin America and the Caribbean. Grant funds are provided through an annual Congressional dollar appropriation and local currency through reflows from the Social Progress Trust Fund administered by the Inter-American Development Bank. During its 19 years of operation, the Foundation has made 2,917 grants totaling approximately $292.4 million to support projects in 36 countries. Foundation support has been matched by contributions totalling approximately $375.9 million from the project participants and their supporters.

During FY 1989, the IAF obligated 386 new and supplemental grants and carried out other program activities having a combined value of approximately $25.5 million. Grants supported self-help initiatives in agricultural and rural development, education and training, community services, health and small urban enterprises. About 16.5% of the Foundation's total budget was dedicated to administrative expenses.

The African Development Foundation (ADF) is an independent public corporation of the U.S. Government. The Foundation was created by Congress in 1980 and became operational in 1984. Its congressional mandate is to provide development assistance directly to grass-roots organizations of villagers and disadvantaged rural and urban people in Africa, without regard to short-term U.S. foreign policy objectives. ADF has funded projects in Egypt and in 23 sub-Saharan African countries: Benin, Botswana, Cameroon, Cape Verde, Ghana, Guinea, Kenya, Lesotho, Liberia, Malawi, Mali, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Somalia, Tanzania, Togo, Uganda, Zambia, and Zimbabwe.

3.6.3. Overseas Private Investment Corporation (OPIC)

OPIC is a financially self-sufficient, government-owned corporation; and the director of the International Development Cooperation Agency (IDCA) serves as Chairman of the Board. The Corporation meets its operating expenses and obligations from revenues earned from the insurance and financing services it provides to American companies. An important result is that while Congressional authorization is necessary, usually every four years, this program requires no annual appropriations.

As aid levels continue to stagnate or decline in real terms, and increased attention is focused on the positive contribution of the private sector to the development process, the relative importance of the OPIC program has increased in the U.S. foreign assistance effort. OPIC provides political risk insurance, direct loans, and loan guaranties to U.S. investors in new or expanding businesses in over 100 developing countries. These investments in manufacturing, resource development, financial services, agribusiness and food processing, and other productive enterprises are important to the economic and social development of these countries. They provide local employment, increase a country's GNP and tax revenue, earn foreign exchange, and stimulate growth in international trade. They also transfer new technology as well as management skills and know-how not readily available to many fledging economies. OPIC-backed investments make positive contributions to the U.S. economy through increased exports, improvements in the balance of payments, and expanded employment.

OPIC's insurance covers a portion of the loss that a U.S. investor would incur in the event of currency convertibility problems, expropriation, war, revolution, insurrection or civil strife. Coverage is available for loans, technology transfers, contractors and exporters, and cross-border leasing arrangements as well as for equity investments. This past year, OPIC introduced business income coverage. This coverage protects the income of investors in the event of damage caused by political violence which interrupts the operation of the foreign enterprise.

OPIC's direct loans and loan guaranties on commercial terms are provided to new or expanding privately owned and operated businesses in developing countries. The business must be at least partially owned by a successful American company, or a U.S. company must be substantially at risk in the project to be assisted. As a result of this policy, businesses in developing countries are provided with access to experienced management and technology as well as to U.S. capital.

In response to changing needs, OPIC has increasingly become involved in innovative programs. These include fostering debt-to-equity conversions to help reduce developing countries' external debt while ensuring developmentally beneficial investment. OPIC, moreover, has assisted privatization efforts and has supported capital investment funds for targeted regions, such as sub-Saharan Africa, which should stimulate investment through investment portfolio diversification. OPIC also looks toward collaborating with the World Bank's new Multilateral Investment Guarantee Agency (MIGA) as an additional means of supporting third world development.

In addition to financial services, OPIC offers promotional services to facilitate overseas investment of American businesses. These include: investment missions where U.S. investors meet local government officials and potential private joint-venture partners; a computerized data bank for matching investors' interests with possible joint venture partners and specific overseas opportunities; investor information services; and conferences, seminars, and other educational programs.

In FY 1989, OPIC provided insurance and financial support to 123 projects, 69 of which were in the poorest group of developing countries. These 123 projects involved a total investment of $3.3 billion. Once in operation, these projects are expected to generate annually an estimated $455 million net foreign exchange savings and $117 million in tax revenues for the host countries. These development benefits are not accomplished at the expense of U.S. economic interests, however. On the contrary, the ventures assisted in FY 1989 are expected to generate 18,730 work years of U.S. employment and about $2.2 billion in U.S. exports during their first years of operation.

3.6.4. Trade and Development Program (TDP)

The U.S. Trade and Development Program (TDP) was established on July 1, 1980 as a component organization of the International Development Cooperation Agency (IDCA). The Omnibus Trade and Competitiveness Act of 1988 makes TDP an independent agency within IDCA.

TDP is unique among foreign assistance programs because of its dual mandate to address both U.S. trade and aid objectives simultaneously. TDP attempts to promote U.S. exports in a manner which also fosters economic development in the third world. TDP operates in a partnership with the U.S. private sector by providing grants to developing countries to enable U.S. firms to conduct planning studies of major projects, such as dams and power facilities. Through the judicious use of TDP funds, TDP increases the likelihood that American goods and services will be procured for use in the projects and exported to the host nation. TDP involvement at this early stage has helped to mitigate the impact of foreign subsidies and to improve the competitive position of U.S. firms in overseas markets.

TDP's success in getting U.S. firms involved in developing countries is measured not only by the amount of exports generated from projects resulting from TDP-financed studies but also by the penetration of newly emerging markets and the development of diplomatic trade relations which might be lost without the backing of the United States via TDP support. TDP estimates that over $2.8 billion in U.S. exports have been associated with projects for which TDP has funded studies and related activities.

3.7. Related International Trade Policy and Programs

3.7.1 General Agreement on Tariffs and Trade

The United States was the driving force behind the formation of the General Agreement on Tariffs and Trade (GATT) in 1947. The GATT is the principal multilateral forum through which the United States works to improve the world trading system.* Periodic multilateral negotiating sessions or "rounds" are conducted under the auspices of the GATT to obtain reductions in barriers to international trade, that is, to liberalize international trade.

GATT members are now in the midst of the eighth GATT negotiating round, initiated in Punta del Este, Uruguay in September 1986. Previous negotiating rounds tended to concentrate on lowering tariff barriers to trade in manufacturers; the Uruguay Round will consider the full range of trade issues, including agricultural and services trade, intellectual property rights protection, investment barriers, dispute settlement and GATT rules. The Uruguay Round is especially significant for developing economies because:

---

* GATT is both a code of rules and a forum in which negotiations and other trade discussions take place. As of January 1988, 96 countries, accounting for more than four-fifths of world trade, were Contracting Parties, as members are called.

-- it emphasizes efforts to increase the integration of less developed economies into the international trading system and to increase their participation in the GATT;

-- the more advanced developing economy members are being encouraged to participate as full trading partners; and

-- there is a major emphasis on liberalization of international trade in goods of particular interest to developing countries such as agricultural and tropical products.

An overall U.S. objective is to strengthen the international trading system in a way that increases market access for developing countries. With respect to the first two points, in addition to improving the international trading system, the United States is attempting to obtain changes in selected GATT rules it sees as detrimental to economic growth in LDCs.

Among the GATT rules that the United States finds to be a problem are selected "special and differential treatment" provisions that allow developing economy members to exempt themselves from GATT prohibitions against restrictive trade measures. Of major concern, is the GATT provision that allows a special balance-of-payments waiver permitting developing economies to impose quantitative import restrictions. At a minimum, the balance-of-payments waiver should have a fixed time period of relatively short duration. Some waivers have been in place for decades helping to protect inefficient domestic industries and, in many cases, to sustain unsound exchange rate, trade, monetary and fiscal policies.

A second problem area concerns the GATT rules whereby LDCs are not obliged to reduce their own trade barriers in exchange for better access to export markets--the reciprocity principle. LDCs, however, can benefit their consumers, improve their international competitiveness and encourage economic growth by reciprocally lowering their trade barriers. The view of the United States is that the GATT, by not requiring reciprocity from LDCs, is missing an opportunity to promote their economic growth.

With respect to trade in agricultural and tropical products, following the opening of the Uruguay Round in 1986, the United States proposed that for agriculture over the next decade, all countries should eliminate export subsidies, import barriers and domestic agricultural programs that support producer revenues. There would be exceptions for food security considerations and for needed improvements in agricultural productivity, e.g, in research, extension, physical infrastructure and dissemination of market information.

The proposal to liberalize international trade in agriculture is extremely important for LDCs because, for the majority of low-income economies, agriculture constitutes a large part of economic activity; and the sector is extremely significant as an employer and as a foreign exchange earner. For example, in 1985 the average share of agricultural in the GDP of low-income countries was 36% compared to a 3% average share in industrialized market economies; for low-income countries, average agricultural exports constituted 53% of total export earnings relative to 13% in industrialized economies; and an average of 71% of the national work force in low-income countries was employed in agriculture compared with 7% in the industrialized countries.*

Several studies suggest that a major liberalization of international trade in agriculture could yield substantial benefits for developing economies. For example, a 1987 IDCA-financed assessment of the initial effects of liberalizing trade in seven major, internationally traded agricultural commodities for 52 developing economies finds that:

-- the foreign exchange earnings of most of the 52 would rise;

-- the foreign exchange expenditure of many grain-importing LDCs would decrease and some would become exporters; and

-- producers' gains in LDCs would tend to be larger than consumers' losses--the net change is positive for the majority of the 52 economies.

The United States also is attempting to facilitate trade liberalization in the Uruguay Round by encouraging the more industrialized countries to eliminate their trade barriers to exports from the poorest of the developing economies. The United States is seeking a political commitment from its industrialized trading partners to collective removal of tariff and possibly some non-tariff barriers to exports from selected, poor economies. Implementation would be linked to (1) a successful outcome of the Uruguay Round, (2) participation in the liberalization initiative by other major trading partners and (3) the provisions in the U.S. Omnibus Trade and Competitiveness Act of 1988. If the initiative can be successfully instituted, the measure will substantially improve the export and economic growth prospects for many of the world's poorest countries.

IDCA policy reform efforts and U.S. strategic concerns in the Uruguay Round are coincident and mutually reinforcing. Policy reform designed to liberalize LDCs' economic policies, including

---

* World Bank, World Development Report 1987.

trade policies, has been the main theme of IDCA policy dialogue with LDC governments for almost a decade. From IDCA's point of view, hesitation by LDCs to liberalize all aspects of their economic policy frameworks is costly in terms of foregone opportunity to pursue economic growth and development.

Liberalization in LDC trade policies achieved through gaining LDCs' compliance with reformed GATT rules, however, can afford a more visible (and therefore more difficult to avoid) form of liberalization compared to commitments made in the context of a bilateral assistance agreement. At the same time, IDCA technical and financial assistance programs can help LDCs implement many of the structural changes that would accompany their participation in a reformed GATT.

Many LDCs are in the process of reforming their trade regimes in the context of the International Monetary Fund (IMF) or World Bank lending programs. The multilateral trade negotiations in the Uruguay Round, however, are based on the principle of reciprocal reductions in trade barriers. To recognize the unilateral reductions in trade barriers that some LDCs have instituted, it has been suggested that LDCs receive credits in the Round for trade-liberalizing steps taken after 1986. Although the credit idea requires substantial development to make it operational, and it would require a case by case approach, the United States is interested in the principle and will continue to explore it.

3.7.2 U.S. Generalized System of Preferences (GSP)

On October 30, 1984, President Reagan signed the Trade and Tariff Act. The Act included statutory authority to extend the U.S. Generalized System of Preferences (GSP) through mid-1993. The program of temporary, duty-free tariff preferences for approximately 3,000 tariff classifications of goods imported from about 140 beneficiary countries and territories covers a broad range of manufactured, semi-manufactured, and agricultural products. However, textiles, apparel, footwear, and leather-related products as well as import-sensitive steel, glass, and electronic articles are excluded by U.S. law from GSP eligibility. During 1987, the United States imported almost $16 billion worth of goods qualifying under the GSP program.* The Trade and Tariff Act of 1984 also provides the potential for further tariff liberalization and for graduation from duty-free preferences under the President's discretionary authority. This provision is intended to implement the U.S. commitment to ensure that the benefits of the GSP accrue to those countries most in need of preferential treatment in order to compete in the U.S. market. In making GSP eligibility determinations, the President

* GATT, International Trade 1986-87, Geneva, 1987, calculated from Appendix Tables A4-A8, pp. 159-167.

must take into account certain country practices of beneficiary developing countries. These include a consideration of the extent to which the beneficiary is (1) providing access to its markets for U.S. goods and services, (2) reducing or eliminating trade-distorting investment practices, (3) providing adequate intellectual property rights protection, (4) aiding practices related to international terrorism, and, (5) engages in expropriation of U.S. property without compensation.

Finally, the Trade and Tariff Act provides unlimited access for GSP-eligible articles from countries designated by the President as "least developed." Each year, the Administration reviews the GSP program in order to determine whether changes should be made in product or country eligibility. On January 1, 1989 four NICs, Hong Kong, Singapore, South Korea, and Taiwan, will be "graduated"; and this will make room for other LDCs to become major GSP players.

3.7.3 Caribbean Basin Initiative (CBI)

The Caribbean Basin Initiative (CBI), begun by the Reagan Administration, is an unprecedented program of trade, economic assistance, and tax measures designed to generate economic growth in the region through increased private sector investment and trade. Because the small and fragile economies of the region were seriously affected by fluctuating costs of oil and by declining markets for their major commodity exports, the Caribbean Basin Economic Recovery Act was proposed and signed into law on August 5, 1983. It immediately became known as the Caribbean Basin Initiative. The CBI is a multifaceted development program combining trade and tax liberalization with economic assistance and enlarged access to the U.S. market.

To promote self-sustaining revitalization of the economies of the 22 beneficiaries, CBI measures are designed to catalyze expansion of local productive capacity in response to the opening of new markets for exports. Such expansion is expected to assist the development of key sectors in the economies of the 22 nations, including tourism.

The major elements of the CBI program include: (a) duty-free treatment for many imports into the United States; (b) increased economic assistance targeted at private sector development; (c) special measures to support the economic development of Puerto Rico and the Virgin Islands; (d) special access to the U.S. market for CBI beneficiary exports of apparel made from fabric manufactured and cut in the United States; (e) allowing CBI beneficiary countries to compete in the U.S. Government procurement market; and (f) allowing U.S. tax deductions for expenses of business conventions held in qualifying Caribbean Basin countries. Finally, the new tax law allows for tax-free funds generated in Puerto Rico to be reinvested in CBI countries that have tax information exchange agreements in effect.

In the face of continuing low world prices for the region's traditional exports, substantial progress in diversifying exports and developing new products is being achieved. Non-traditional exports have grown rapidly for the area as a whole and particularly for select CBI countries. CBI-manufactured exports to the United States from A.I.D.-assisted countries rose from $716.4 million in 1982 to over $2.4 billion in 1988. For the period 1983 to 1988, Central America achieved an annual average growth rate of over 20% in non-traditional exports, with the Caribbean Islands registering a 25% growth rate for the same period. Furthermore, a recent Department of Commerce study funded by A.I.D. substantiated that more than $1.5 billion was invested in 646 companies from 1983 to 1987 in the region, creating more than 116,000 jobs.

Chapter 4.

Multilateral Programs

4.1. Introduction

U.S. participation in multilateral development organizations and programs is long-standing. Many of these programs grew from U.S. initiatives to marshall international support for the developing countries.

The multilateral development banks (MDBs) respond to the need of the LDCs for capital to finance development. The World Bank Group includes the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), and a recent addition, the Multilateral Investment Guarantee Agency (MIGA). The regional banks include the African, Asian and Inter-American Development Banks and their associated concessional lending windows (as well as the Inter-American Investment Corporation in the case of the IDB). The International Monetary Fund (IMF), the World Bank's sister institution, lends primarily for balance-of-payments stabilization, but is becoming increasingly involved in longer-term lending through the Enhanced Structural Adjustment Facility (ESAF).

United Nations (UN) organizations also are important in the multilateral context. A number of UN organizations and special programs focus on the problems and process of development: examples are the United Nations Development Program (UNDP), the World Food Program (WFP), the UN Fund for Population Activities (UNFPA), the World Food Council, and the UN Capital Development Fund.

Several specialized agencies of the United Nations, such as the International Fund for Agricultural Development (IFAD) and the United Nations Industrial Development Organization (UNIDO), have specific development responsibilities. The World Health Organization (WHO), the Food and Agriculture Organization (FAO), and the World Meteorological Organization (WMO) also pursue development activities within the context of broader responsibilities.

A number of other UN organizations have mandates broader than development, but devote a considerable amount of their resources to development-related activities. These include organizations such as the UN Children's Fund (UNICEF) and the UN Environment Program (UNEP).

The United States also supports international organizations other than the UN system and the multilateral development banks. The Organization of American States (OAS) plays an important role in providing development assistance for Latin America. In addition, the United States works directly with other donor countries in the areas of cooperation, coordination, and exchange of information on assistance programs and development issues. These efforts take place, for example, through the Organization for Economic Cooperation and Development (OECD) and the OECD's Development Assistance Committee (DAC), through the World Bank's Consultative Groups and through UN Roundtables, as well as in formal and informal discussions among representatives of bilateral and multilateral aid agencies posted in the developing countries.

The sections below describe in some detail the major development-related international institutions and programs supported by the United States.

4.2 Multilateral Development Banks (MDBs)

The MDBs -- the World Bank, Asian Development Bank, African Development Bank, and Inter-American Development Bank -- consist of both capital and concessional lending windows. Lending from the capital windows is financed largely from borrowings on world capital markets against member pledges of callable capital. Loans from capital windows have lending rates slightly lower than could be obtained by the most creditworthy developing countries in international capital markets and have considerably longer maturities. Concessional windows, which lend to low-income countries at highly concessional rates and extremely long maturities, derive their resources almost entirely from direct donor contributions. In addition, some of the MDBs have specialized institutions which promote private sector development.

During 1989, the United States and other donors carried on negotiations for the ninth replenishment of the World Bank's International Development Association (IDA IX) to cover the period 1990-93. These negotiations were finally concluded in December 1989, with agreement on a replenishment size of 11.68 billion SDRs, or $14.7 billion. The amount of the replenishment will allow IDA to maintain its lending in real terms compared with IDA VIII. The United States made important policy gains in these negotiations, including:

-- ensuring that environmental assessments on environmentally sensitive projects will be made available to affected groups in the recipient country and to IDA's Executive Board;

-- preserving IDA's support for ongoing economic reform programs in sub-Saharan Africa while providing IDA greater flexibility to determine the regional allocation of its resources;

-- providing for periodic Board review of the economic policies in each IDA borrowing country to ensure that a favorable environment for IDA lending exists; and

-- advocating an even stronger focus on poverty reduction in IDA programs and greater weight in lending allocations to poverty alleviation efforts of recipient countries.

These policy advances in the negotiations enabled the Administration to make a commitment to maintain the U.S. contribution in real terms.

In 1989, agreement was also reached on the 1990-94 replenishment of the Inter-American Development Bank and Fund for Special Operations. The agreement will provide for $22.5 billion in lending over five years, in exchange for specified changes in Bank operations, including changes in the country programming process and voting procedures, and staffing changes to improve environmental review and other aspects of IDB operations.

Also in 1989, the Asian Development Bank helped establish the Asian Finance and Investment Corporation (AFIC). Its major objective is to promote and support the growth of the private sector in Asia. It will engage in term finance and merchant banking activities in Asian countries which do not borrow from the ADB. The institution will be financed wholly by the ADB and commercial banks from member countries.

The principal means of U.S. oversight of MDB policies is the regular review of MDB projects. Inter-agency review of a loan about to come to the Board of Directors for a vote focuses on the technical, economic and financial merits of the proposed activity. This review sometimes results in U.S. opposition to a loan when it is considered by the Board. While our negative vote is generally insufficient to prevent Executive Board approval, the MDBs know that poor project quality can adversely affect the level of U.S. contributions. Concerns expressed by the United States, therefore, often lead to design improvements before projects come forward for Bank consideration. The most effective way for the United States to influence project design is, however, to identify potential problems while a loan is still in the preparatory stage and more susceptible to change. This is the purpose of A.I.D.'s Early Project Notification (EPN) System, which routinely solicits the views of A.I.D. missions and selected embassies on upcoming MDB loans. Concerns may be discussed with relevant MDB staff at headquarters well in advance of Board presentation and a constructive dialogue can be initiated at the field level. A successful outcome to such a dialogue with the MDB concerned can obviate the need for a negative U.S. vote in the Board.

The EPN System is critically important in identifying potential problems concerning the environmental aspects of MDB loans. The potentially adverse impacts of some development projects funded by MDBs is a continuing concern. A.I.D. has augmented its EPN review process by directing special attention to MDB projects in selected areas where environmental problems appear especially likely to occur. This review serves as the basis for discussion of project issues with other U.S. Government agencies and environmental groups. It also contributed to the development of the semi-annual listing of potential problem projects for the Congress. New environmental review procedures adopted by the MDBs themselves should also yield significant improvements in this area.

The Administration's budget request for individual MDBs is explained in the following sections.

4.3 World Bank Group

The World Bank Group, the largest of the MDBs, now consists of four major component institutions: the Bank, or IBRD; IDA; the IFC; and the MIGA. In the FY 1988 budget, the Administration approved the U.S. share of the one-time start-up capitalization of the MIGA. Therefore, in FY 1989, FY 1990 and FY 1991 there is no MIGA budget request.

4.3.1. International Bank for Reconstruction and Development (IBRD)

As noted earlier, the IBRD, whose capital is subscribed by member countries, finances lending operations primarily from borrowings in world capital markets, as well as from retained earnings and loan repayments. Loans are repayable over twenty years or less, including a grace period of up to five years. The IBRD charges a variable interest rate on a cost-plus basis, derived from its own cost of borrowing in international financial markets.

IBRD loans, which amounted to $16.4 billion in 1989, are directed toward middle-income developing countries that can afford to pay the market-related interest rate the IBRD charges. In 1989 the largest borrowers from the IBRD were Nigeria, Mexico, India and Indonesia.

For FY 1991, the U.S. owes its third installment of the $74.8 billion General Capital Increase (GCI). The U.S. commitment to the GCI over six years amounts to $420.6 million in total paid-in capital and $13.6 billion in callable capital. In FY 1990, Congress appropriated $49.8 million of the $90.3 million paid-in request, while providing no program limitation for the callable capital request of $2.24 billion. Therefore, the FY

1991 request includes the third U.S. installment of $70.1 million paid-in and $2.27 billion in callable capital, as well as significant paid-in and callable arrearages from the second installment.

4.3.2. International Development Association (IDA)

IDA, the World Bank's concessional lending window, is funded by contributions from donor countries and reflows from previous credits. It is the single largest source of concessional development assistance for the world's poorest countries, with lending totalling $4.9 billion in 1989. Major borrowers were India, China, Bangladesh and Ghana. IDA formally lends to countries with an annual per capita income of $940 (1987 dollars) or less, but in reality focuses most of its resources on countries with less than $580 per capita income. IDA loans must meet all the criteria for economic, financial and technical soundness that apply to other World Bank loans. IDA loans carry a 0.75% annual service charge and have maturities of 35-40 years with a 10-year grace period.

As explained above, during 1989, the United States and other donors concluded negotiations for the IDA IX replenishment. The U.S. contribution to IDA IX, $3.18 billion, will be requested during FYs 1991-93. The FY 1991 budget includes the first installment of $1.06 billion, as well as slight arrearages from IDA VIII.

4.3.3 International Finance Corporation (IFC)

The IFC supports the private sector in developing countries by arranging and participating in equity financing arrangements and commercial loan packages for private enterprises in the developing countries. During 1989, the IFC approved loans amounting to $1.42 billion, equity investments of $257 million, and guarantees and underwritings of $37 million.

Of the $40.3 million requested for the IFC in FY 1991, $35.0 million will go toward delayed payment of the final installment of the U.S. contribution to the 1985 capital increase of the IFC. The remainder is payment on past U.S. arrearages owed on earlier installments of the same capital increase.

4.4 Asian Development Bank and Fund (ADB/F)

Established in 1966, the ADB has a membership of 32 regional and 15 non-regional countries. The United States was a driving force behind the ADB's creation and has always played a major role in the institution. The United States also has contributed to the ADF since it was set up in 1974. In 1988, the ADB and

TABLE 4.1: U.S. CONTRIBUTIONS TO THE MULTILATERAL DEVELOPMENT BANKS, FISCAL YEARS 1988-91 ($000)

	FY 1988 Actual	FY 1989 Actual	FY 1990 Actual	FY 1991 Request
IBRD				
Paid-in	40,176	50,001	49,786	110,592
Callable	(437,320)	(2,292,973)	-	(4,509,282)
IDA	915,000	995,000	960,850	1,065,150
IFC	20,300	4,892	74,606	40,331
MIGA				
Paid-in	44,403	-	-	-
Callable	(177,612)	-	-	-
ADB				
Paid-in	15,057	-	-	-
Callable	(276,504)	-	-	-
ADF	28,000	152,392	174,973	301,809
AfDB				
Paid-in	8,999	7,345	9,493	10,136
Callable	(134,918)	(135,063)	(134,230)	(135,389)
AfDF	75,000	105,000	104,548	105,452
IDB				
Paid-in	31,600	-	31,482	57,449
Callable	(119,404)	-	-	(2,235,077)
FSO	25,732	-	63,451	20,850
IIC	1,303	-	-	25,500
TOTAL BUDGET AUTHORITY	1,205,571	1,314,630	1,469,190	1,736,269
PROGRAM LIMITATIONS	(1,145,758)	(2,428,035)	(134,230)	(6,879,748)

N.B. Totals may not add due to rounding.

ADF approved loans amounting to $2.06 billion and $1.08 billion, respectively, as well as a small amount of equity investments. The ADB makes loans at a variable interest rate with 10-30 year maturities and up to 7 years grace. The ADF has a 1% service charge, 35-40 year maturities and a 10-year grace period. Principal borrowers in 1988 included Indonesia, Pakistan, and India in the ADB, and Bangladesh, Pakistan, and the Philippines in the ADF.

No funds are requested for the ADB in FY 1991, since the demand for ADB loans has not warranted a new General Capital Increase since the one agreed to in 1984. Of the $301.8 million Administration request for the ADF, $146.0 million is needed for the final U.S. installment of the ADF-V replenishment. The remainder of the ADF request will go toward the third installment of the U.S. contribution to the ADF-V replenishment.

4.5 African Development Bank and Fund (AFDB/F)

Created in 1963, the AfDB opened its membership to non-African countries in 1982 and the United States joined in 1983. The AfDF, AfDB's concessional arm, was created in 1973 and the United States has been a member since 1976. AfDB loans are repayable over 12-20 years, with up to 7 years grace. The lending rate is set every six months according to borrowing costs. The AfDF makes 50-year loans with a 0.75% service charge. In 1988, AfDB lent $1.41 billion (principal borrowers were Cote d'Ivoire and Egypt); AfDF loans totalled $763 million (principal borrowers were Mozambique, Sudan and Uganda).

The FY 1991 request includes the fourth installment of the U.S. subscription to the 1987-91 AfDB capital increase, including slight arrearages from FY 1990. It also includes the $105 million third installment of the U.S. contribution to the AfDF V replenishment (covering 1988-90), and very slight arrearages from the second installment.

4.6 Inter-American Development Bank/Fund for Special Operations (IDB/FSO)

The IDB and FSO provide development assistance to Latin American and Caribbean countries, and the United States is the major contributor to both windows. The IDB lends at a variable interest rate, with maturities of 15-25 years. The FSO lends at an interest rate of up to 4%, with maturities of 25-40 years and grace periods of 5-10 years. In 1988, the IDB lent $1.5 billion, the FSO $154 million.

The FY 1991 request of $78.4 millions for the IDB and FSO includes the initial U.S. payment on the new IDB replenishment. The $25.5 million requested for the Inter-American Investment

Corporation will complete the U.S. subscription to the $200 million initial capitalization of the Corporation.

4.7. International Monetary Fund (IMF)

As the central monetary institution for the world economy, the IMF serves two key functions: (1) general guidance of the monetary system, including surveillance of exchange arrangements, the balance-of-payments adjustment process, and the evolution of the international reserve system; and (2) provision of temporary financing in support of members' efforts to deal with their balance-of-payments difficulties.

The IMF is essentially a revolving fund of currencies, provided by every member in the form of a quota subscription and available to every member for temporary balance-of-payments assistance at any given time. It also makes use of borrowed resources. The IMF was not designed as an aid institution even though it has sometimes been pressured to act like one. There is no fixed class of lenders or of borrowers and no concept of "donor" or of "recipient."

The IMF has, however, served as an aid institution in the administration of its Trust Fund. The Trust Fund originated when the IMF sold one-sixth of its gold between 1976 and 1979 and loaned a portion of the auction receipts to the IMF's lower-income members on highly concessional terms.

The IMF sold gold in an attempt to demote gold and elevate the Special Drawing Right (SDR) to the status of principal international reserve asset. SDRs were first created in 1969, at a value of SDR 1= $1, to serve as a supplemental international reserve asset of IMF members. The value of an SDR has fluctuated over time, rising to $1.32 in June 1980 and falling to $1.00 in June 1985. By November 1989, it was back to $1.28.

In March 1986, to support economic development, the IMF created the Structural Adjustment Facility (SAF) to relend SDR 2.7 billion in Trust Fund reflows that will accrue between 1985 and 1991. The SAF is designed to support comprehensive, growth-oriented economic programs for low-income countries with protracted balance-of-payments problems. Among the 62 countries designated as eligible, China and India have indicated that they would not avail themselves of the Facility. SAF loans are made at an interest rate of one half of one percent and are to be repaid, after five years of grace, within 10 years of the date of the loan.

The SAF provides for three separate loans to be disbursed in just over two years to a participating country. The initial SAF arrangement provides a loan equal to 20% of the country's quota. The second-year arrangement provides a disbursement of 30% of quota, and the third provides 20% of quota.

During the design of the Structural Adjustment Facility, the IMF and the World Bank cooperated in introducing a new development tool, the policy framework paper (PFP). A PFP, covering a three-year period, describes the major economic problems and challenges facing an eligible country seeking a SAF agreement. It delineates the objectives of a medium-term policy program and the broad thrust of macroeconomic and structural adjustment policies to be implemented to address those problems and challenges. It identifies external financing requirements and the likely available sources of financing. It provides statistical projections and specifies policy actions for each of the next three years.

The PFP is intended to be the member's presentation. It is developed in close collaboration with the staffs of the World Bank and the Fund. It is reviewed by the Executive Directors of the Bank and the IMF Board. A SAF arrangement is not submitted to the Fund's Board until the applicant's PFP has been completed. The PFPs are updated annually and reviewed in connection with the presentation of each subsequent annual program. To be eligible for second and third-year arrangements, countries must remain in need of balance-of-payments assistance and must adhere to their structural reform programs. Subsequent tranches are delayed when countries fail to adhere to their reform programs, and some countries have been dropped from the program because of compliance failures.

In April 1988, the Fund began operating an Enhanced Structural Adjustment Facility (ESAF), whose objectives, basic procedures, and financial conditions parallel those of the SAF. The ESAF, as a supplement and alternative to the SAF, is to provide resources totaling SDR 6 billion to low-income developing countries engaged in economic and structural adjustment. The additional resources are to assist the adjustment efforts of low-income countries with high levels of indebtedness as well as those whose exports are concentrated in commodities whose prices have remained persistently weak in world markets.

Access under the ESAF is determined on the basis of a country's balance-of-payments needs and the strength of its adjustment effort, with maximum loans of 150% of quota over a three-year program period, with provision for up to 350% in exceptional circumstances (contrasting with SAF access of 70% of quota). The financial terms applying to loans under the ESAF are the same as those under the SAF.

The cutoff date for Fund approval of initiation of a country's three-year ESAF arrangement is November 30, 1990. The first SAF arrangement was approved by the Fund in August 1986. By the end of October 1989, 21 countries (14 in sub-Saharan Africa) had SAF arrangements in force; nine had been authorized second disbursements; and Bangladesh, Dominica and Mozambique had completed all three drawings. The first ESAF arrangements were approved in July 1988, and in October 1989, 11 were in effect. All except Bolivia's were in sub-Saharan Africa. Except for Malawi's, all ESAF arrangement followed earlier SAF programs.

The one common requirement for a member seeking the use of IMF resources is that it has balance-of-payments difficulties and is willing to undertake an adjustment program to remove the problems underlying those difficulties. In developing and implementing its financial programs, as well as on other occasions, the IMF provides its members with economic policy advice. The IMF emphasizes the implementation of demand management policies, but not to the exclusion of measures to promote savings, investment, and efficient resource use. The latter improve productivity and competitiveness as a means of attaining sustainable balance-of-payments positions.

Most IMF assistance is provided under stand-by arrangements. An IMF member anticipating a balance-of-payments problem negotiates a stand-by arrangement, specifying the amount of assistance to be made available to it and the conditions of economic policy and practice the member must fulfill to be permitted to draw the assistance. In effect, a stand-by arrangement provides a nation with an overdraft privilege against which it can draw, as needed, provided it has met the performance conditions specified in the agreement. Between 1982 and 1986, the number of active stand-by arrangements fluctuated between 23 and 35. At the beginning of October 1989, 16 stand-by arrangements were in effect (5 in sub-Saharan Africa). Mexico, the Philippines, Tunisia, and Venezuela were engaged in extended financing arrangements. The latter is a longer version of a stand-by arrangement. It makes assistance available for up to three years and allows up to 10 years for repayments.

Some countries are opting for SAF or ESAF arrangements in place of stand-by or extended financing arrangements. The SAF and ESAF's concessional terms contrast sharply with the near market rates of stand-by and extended financing arrangements. In October of 1989, only 4 of the 32 countries with SAF or ESAF arrangements in place also had stand-by arrangements. In August 1988, the IMF introduced a Compensatory and Contingency Financing Facility (CCFF) to assist countries with IMF-supported adjustment programs maintain the momentum of adjustment efforts in the face of a broad range of unanticipated adverse external shocks such as sudden movements in export earnings, import prices, worker remittances, tourist revenues, or international interest rates. The CCFF replaces the similar but more restricted Compensatory Financing Facility. By offering "ex ante" financial assurance against external shocks to members engaged in economic adjustment, the contingency financing mechanism will reduce the vulnerability of adjustment programs, thereby encouraging members to undertake longer-term adjustment programs with greater confidence. The first CCFF loan was approved in January 1989 for Trinidad and Tobago.

The Fund also operates a Buffer Stock Financing Facility and provides emergency assistance to meet payments problems arising from natural disasters. No Buffer Stock loans were outstanding in October 1989. Emergency loans were made to only two countries, Bangladesh and Jamaica, during 1988-89.

The IMF also plays a key role in arrangements for restructuring the foreign debt of developing countries. Since the emergence of widespread balance-of-payments problems in 1982, developing nations have frequently negotiated the restructuring of their official and officially guaranteed debt to foreign banks and to foreign governments. These restructurings provide relief to the debtors by postponing interest and amortization payments. With few exceptions, creditors have made all restructurings conditional on the introduction of IMF-supported adjustment programs. Since 1986, the Paris Club has agreed to accept both SAF and ESAF arrangements as satisfying that condition in the absence of a stand-by arrangement.

Within their restructuring arrangements, commercial banks generally link disbursements of concerted bank lending to a country's adherence to an IMF arrangement. The IMF role is therefore to assist the debtor government to construct an appropriate adjustment program, to provide foreign exchange to support implementation of that program, and to provide its imprimatur indicating that the debtor appears likely to be able to overcome its balance-of-payments problems.

There is also normally a close link, though no cross-conditionality, between World Bank adjustment loans and Fund stand-by and extended financing arrangements. The IMF generally supports and monitors a country's stabilization program (and plays a more extensive role under the Structural Adjustment Facilities). The Bank then assists adjustment measures. Nearly all of the Bank's structural adjustment loans have been implemented in the context of an IMF facility or monitoring program.

In May 1989, the Fund's Board of Directors agreed that the Fund would act to support debt reduction plans agreed to between debtor governments and their commercial bank creditors. The Board established a set of guidelines for access to such support with the basic criterion being, "the sustained pursuit of strong economic policies, in the context of a medium-term program supported by the Fund, which includes strong elements of structural reform." The fund will not interfere directly in negotiations between its members and their bank creditors. The Fund will stress close collaboration between it and the World Bank in supporting members' debt reduction activities.

Under the guidelines, up to 25% of stand-by or extended-financing resources can be set aside to reduce the debt stock through buy-backs or exchanges. Drawings will be placed in line with the member's performance under its adjustment program. In cases where such support may be decisive in promoting further cost-effective operations and in catalyzing other financial resources, additional access of up to 40% of the member's quota may be used for interest support of debt or of debt-service reduction. Through December 15, 1989, four countries, Costa Rica, the Philippines, Mexico, and Venezuela, had received Fund support under the new guidelines.

Net disbursements from the Fund peaked at SDR 11.5 billion during the 12-month period ending September 30, 1983. They declined to SDR 1.5 billion during the 12 months ending September 30, 1985. This decline in net disbursements resulted from both a decline in "purchases" from the IMF--in effect, loans from the IMF--and an increase in "repurchases" from the IMF--in effect, repayments of IMF loans. Referring to 12-month periods ending on September 30, purchases fell from SDR 13.5 billion in 1983 to SDR 4.8 billion in 1985. Repurchases rose from SDR 2.0 billion in both 1983 and 1984 to SDR 3.3 billion in 1985.

During the years 1980 through 1985, the Fund provided net disbursements that helped to finance the temporary balance-of-payments deficits of member countries. But the Fund's September 1986 through September 1989 negative net disbursements have made it a net claimant on members' foreign exchange earnings. During 1986, repurchases of SDR 5.1 billion, exceeded purchases of 3.2 billion. Net disbursements were thus a negative SDR 1.9 billion. Net disbursements were a negative SDR 1.9 billion in 1987, a negative SDR 4.7 billion in 1988 (the difference between SDR 2.8 billion in purchases and SDR 7.5 billion in repurchases), and a negative SDR 2.7 billion in 1989 (SDR 3.4 billion in purchases minus SDR 6.1 billion in repurchases).

4.8 United Nations Organizations and Programs

The United States supports several UN organizations and programs with activities in the developing countries.

4.8.1. United Nations Development Program (UNDP)

The UNDP, headed by former Export Import Bank President William H. Draper, III, is the major multilateral instrument for the delivery of grant technical assistance to the developing world. In 1988, UNDP expenditures totaled over $800 million, including funding for projects in more than 150 countries and territories.

Operating through the Specialized Agencies and other UN bodies, UNDP coordinates technical assistance to developing countries. The UNDP country programming process encourages recipient countries to examine their development needs and to assign priorities to development efforts through joint preparation of a five-year country program. The UNDP coordinating role for technical assistance provided by all UN agencies permits a multi-sectoral approach to developing country problems. UNDP's roundtable process provides prospective donors--UN agencies, multilateral development banks, and bilateral donors--with a forum to discuss a country's economic situation and development needs.

UNDP goals for the fourth programming cycle 1987-1991 include: revised criteria so that low-income countries receive a still larger share of total UNDP resources; strengthened dialogue with recipient governments on the country programming process; work with countries on revised strategies for economic management where indicated; and weighting in favor of developing countries facing severe geographic, ecological or economic handicaps.

UNDP activities directly and indirectly serve U.S. interests in a number of ways. UNDP assistance, for example, fosters self-help and greater mobilization of domestic resources in recipient countries. In the long run, this progress leads to greater economic stability, reduced reliance on concessional assistance, and improved trade prospects for the United States.

Since the establishment of the UNDP, the United States has been its largest contributor. In FY 1989, the U.S. contribution was $111 million. For FY 1990, the U.S. contribution is $107.830 million.

4.8.2. United Nations Children's Fund (UNICEF)

Begun as an emergency program for European children in the wake of World War II, UNICEF gradually evolved into a long-term, voluntarily funded, humanitarian, development program. Its main objective is to improve the health and living conditions of children in developing countries and to assist children to become productive members of their societies. UNICEF works closely with governments and local communities in 119 countries, often in collaboration with UNDP, WHO, and other UN and multilateral organizations as well as bilateral aid agencies and non-governmental organizations (NGOs).

Three activities are undertaken by UNICEF:

- planning and designing primary health care and basic services for children;

- delivering supplies and equipment for these services; and

- providing funds for the training of local personnel needed to work on behalf of children, i. e., teachers, nutritionists, health and sanitation workers, and so forth.

UNICEF has been immensely successful in reducing infant and child mortality rates in developing nations and continues to focus international attention on opportunities for achieving a "child survival revolution." UNICEF believes it possible within 10 to 15 years to save the lives of half of the 40,000 children who currently die each day in developing countries. UNICEF stresses the "GOBI" strategy, a package of low-cost, high-impact measures: growth monitoring to enable mothers to detect and prevent infant malnutrition; oral rehydration therapy to provide an inexpensive home treatment to reduce the high death toll among children with diarrhea; the promotion of breast feeding; and immunization for mothers and young children. Additional aspects of UNICEF's program include the "three Fs" of family spacing, food supplements, and female education. It is estimated that UNICEF's health interventions save the lives of over one million children every year.

The U.S. Government always has been a prime supporter of UNICEF and a member of UNICEF's Executive Board. The UNICEF Executive Director has always been a U.S. national. UNICEF's program directions generally coincide with U.S. development initiatives and policies. UNICEF's efforts in promoting oral rehydration therapy and immunization, for example, as well as other elements in UNICEF's effort to bring about a "child survival revolution" in developing countries, reinforce U.S. assistance programs aimed at promoting child survival. In 1988, in addition to its contributions to UNICEF's general resources, the United States provided special contributions to UNICEF totaling approximately $25 million for child survival activities. A.I.D. is also co-sponsoring the March 1990 World Conference on Education for

All, sponsored by UNICEF, UNESCO and UNDP, to focus worldwide efforts on achieving basic education for all people by the year 2000.

All of UNICEF's income comes from voluntary public and private contributions. The U.S. contribution in 1989 of $60.4 million represented 18.1% of estimated governmental contributions to UNICEF's general resources. Other major pledges in 1989 included $42.1 million from Sweden, $36.4 million from Italy, $31.5 million from Norway and $27.4 million from Finland. For FY 1990, the U.S. contribution is $33.9 million. UNICEF is unique in the UN system in that private contributions and the sale of greeting cards raise about 16% of UNICEF's general resources.

4.8.3. World Health Organization (WHO)

The World Health Organization (WHO) functions as the chief coordinating authority on international public health. It works to build strong national health services to enable countries to become self-reliant in meeting the health needs of their citizens. WHO's approach to health is preventative rather than curative.

Since its formation in 1948, WHO has worked to help member countries control diseases. It can take much of the credit for the eradication of small pox and is now working with A.I.D. to support development of a vaccine against malaria. WHO launched and is leading the international fight against acquired immune deficiency syndrome (AIDS), including medical reserach and the development of preventative measures. WHO's increased focus on child survival parallels U. S. policy regarding international assistance for primary health care, including provision of safe water, adequate nutrition, and essential drugs and immunizations against basic childhood diseases.

The World Health Organization has the largest regular budget of any UN specialized agency. The United States is assessed 25% of WHO's regular budget. In FY 1989, the United States' assessed contribution was $77.8 million. The U.S. net required payment for FY 1990, excluding arrearages, is $74.1 million; and for FY 1991 it is $78.3 million.

4.8.4. Food and Agricultural Organization (FAO)

The Food and Agriculture Organization (FAO) is the UN specialized agency with primary responsibility in the area of agriculture, fisheries, forestry and nutrition. FAO was established in 1945 and maintains headquarters in Rome, Italy.

FAO income is derived from the assessed contributions of 158 member countries, and from voluntary extra-budgetary contributions by donors. U.S. assessed contributions to the FAO support the Regular Program Budget (RPB).

In the past two biennia, the United States has been assessed by FAO at a rate of 25% of total RPB levels. U.S. legislation (P.L. 92-544) places a cap at 25% on the level of funding we can provide toward FAO's regular budget.

In 1988-89, the approved RPB for FAO was $492,360,000. FAO's assessed budget for 1990-91 is $626 million. At 25%, the U.S. assessed share of the 1990-91 budget is about $78 million per annum, or $156 million for the biennium. FAO projects that it will receive $775 million in extra-budgetary contributions from governments, international organizations and non-governmental donors, making the total projected FAO budget for 1990-91 about $1.4 billion.

The United States is currently in arrears in its payments to FAO. According to U.S. calculations, the United States owes FAO approximately $123 million in arrearages after making an $18 million payment in January 1990. Technically, the U.S. right to vote can be suspended if we do not make a payment to FAO of at least $65 million by January 1, 1991. Moreover, according to Rule XII.7 of the Basic Texts of FAO, continued non-payment of U.S. arrearages beyond two years may be considered by the FAO as U.S. resignation from the organization.

FAO's technical assistance encompasses the following areas: plant production and protection; animal production and health; fertilizers; land and water resources; fisheries; food policy and nutrition; forestry; agrarian reform and rural development; and training for developing country nationals in all areas of agriculture. FAO's program of work for the 1990-91 biennium reflects and ascribes to a link between food issues and other non-food sectors. According to FAO, its strategies for the food and agriculture sector are impacted by the state of play in other arenas, including money and debt problems and international arrangements for trade of agricultural commodities. FAO sees in these linkages its legitimate mandate: to alleviate the burden of debt servicing that inhibits improvement in the economic growth of developing countries; and to advocate liberalization of global terms of trade which would improve market access for developing countries.

The United States remains concerned that FAO stretches itself too thin in trying to affect conditions in a multitude of "priority" areas. The United States continues to recommend that FAO rank priorities and then make tough decisions in light of these rankings as to which priorities should be pursued at the cost of others. Moreover, the United States urges FAO to undertake the significant administrative and management improvements recommended in 1989 by the groups of experts who reviewed FAO's roles, priorities, goals, strategies and field operations.

4.8.5. World Food Program (WFP)

The UN and the FAO established the World Food Program (WFP) in 1962 to provide food aid to governments for development projects and as emergency assistance. Over 50 participating countries, including the United States, make voluntary pledges to WFP in the form of commodities and cash (for services such as shipping). The United States has been a major supporter of WFP providing, over the years, about a quarter of WFP resources.

The WFP works toward long-term solutions to hunger while meeting immediate or emergency requirements by implementing food-assisted rehabilitation and development projects aimed at the increased economic production that ultimately reduces poverty and hunger. During the 1987-88 biennium, and carrying into the 1989-90 biennium, emergency assistance for refugee programs -- in the Horn of Africa, Mozambique, Pakistan and Afghanistan -- have placed an unprecedented burden on WFP resources. WFP had called on donors for more voluntary resources to meet escalating emergency assistance requirements as well as on UNHCR (UN High Commission of Refugees) to solve the problem of protracted refugee status situations.

At the same time, WFP has been charged by members with arriving at innovative approaches to food aid to improve the status of women in development; to foster improvement of the environment; and to ameliorate the negative impact of structural adjustment. WFP's major efforts in the area of social and economic development are currently implemented through the following types of projects:

-- human resources development projects such as child feeding and school lunch programs;

-- infrastructure development projects, such as irrigation and road projects in which part of the workers' earnings are paid in food;

-- production projects, such as the supply of food grains to support livestock and poultry industries; and

-- resettlement programs to sustain displaced groups until crops can be harvested on land made available to the groups.

Because donors have not been able to respond with resources -- in cash or in-kind -- at the levels needed, it is likely that the Program will make reductions in its regular development project activity.

The WFP pledge target for 1989-90 is $1.4 billion, of which the United States has pledged $300 million in commodities and cash subject to Congressional appropriation and commodity availability. The pledging session for the next WFP cycle, 1991-92, will be held in early 1990. The United States does not expect to make its pledge at that time. However, a formal commitment probably will be made by the end of October 1990.

4.8.6. United Nations Environment Program (UNEP)

Established pursuant to UN General Assembly resolution in 1973 in Nairobi, Kenya, UNEP promotes and coordinates international, regional and national efforts to preserve, protect and improve the environment; and maintain the natural resource base. UNEP is responsible for monitoring the world environmental situation to ensure that international environmental problems receive appropriate consideration by governments. It is primarily a catalytic and coordinating program which provides seed money to launch or support programs designed to fill gaps or improve performance of environmental programs carried out principally by other elements of the UN system.

U.S. contributions to UNEP are voluntary. The United States has been the major contributor to UNEP. The United States initiated the Environment Fund which provides financing for environmental activities undertaken by the UN system. Since the Fund's inception, the United States has provided a total of $126.7 million. The United States plans to contribute $8.0 million to UNEP in FY 1990.

For the most part, UNEP's activities closely parallel U.S. interests and complement United States environmental efforts to improve the environment. For instance, UNEP development of uniformed international guidelines to be observed by all trading nations with respect to environmental standards in productive activities improves the competitive stance of U.S. business that must meet high domestic environmental standards. Moreover, recommendations by UNEP for action on pollution control can influence the sale of pollution control equipment, benefiting those U.S. industries that produce it.

UNEP is particularly responsive to U.S. interest in promoting sustainable development. UNEP also promotes cooperation on regional problems such as acid rain, marine pollution and desertification. The United States attaches particular significance to UNEP's Regional Seas Program; the Endangered

Species Convention (CITES); the Intergovernmental Panel on Climate Change (IPCC); and the Global Environmental Monitoring System (GEMS) and its subprogram on Global Resource Information Data. Recent new UNEP initiatives of major importance to the United States include the proposal of a major new convention on biodiversity; the call for a global convention on climate change, and ratification of a convention for the control of transboundary movements of hazardous wastes.

4.8.7. United Nations Industrial Development Organization (UNIDO) and its Investment Promotion Service (IPS)

Established in 1967 as an integral part of the UN Secretariat, UNIDO was given status as a specialized UN Agency in 1986. UNIDO is charged with promoting and accelerating industrialization in the developing countries. To accomplish this task, UNIDO works with the private sector and encourages investment as a means of fostering industrialization in developing countries. UNIDO is the third largest executing agency for UNDP-funded projects.

UNIDO's gross budget for the biennium 1990-91 is $164 million, of which the U.S. share is 25% or roughly $41.1 million. A.I.D. provides a voluntary contribution to UNIDO from its International Organizations and Programs Accounts to support the Investment Promotion Service (IPS) which is located in Washington, D.C. A.I.D. provided $150,000 to IPS/District of Columbia in FY 1988 and $250,000 in FY 1989. The allocation for IPS/District of Columbia in FY 1990 is $500,000.

UNIDO's IPS works with the private sector. It hosts investment promotion officers from developing countries and supports their efforts to attract private investment capital for industrial projects in their home countries. The IPS program maintains eight offices worldwide (in Austria, Federal Republic of Germany, France, Italy, Japan, Poland, Switzerland, and the United States), each funded by their respective host governments.

The United States has suggested that IPS offices in developing and industrialized countries should focus more on assuring the role of the private sector in investment brokering and emphasize such functions as promoting national business climates that attract and encourage private enterprises as part of its own activities. It has been suggested also that UNIDO's IPS has greater potential for impacting investment by convincing national governments to institute policies and incentives conducive to open markets than by its current approach.

In 1988-89, A.I.D.'s Office of Private Enterprise contributed in-kind services to UNIDO worth $100,000 to support projects and activities of mutual interest in the field of privatization.

Thus far, IPS has worked with UNIDO staff to develop a workshop on privatization strategies for development.

4.8.8. United Nations Capital Development Fund (UNCDF)

UNCDF was created in 1966 for the purpose of providing, on a grant basis, seed money for small, catalytic development projects for the poorest people in the least developed countries. Operating under the administration of the UNDP, the Fund supports self-help projects too small for the multilateral development banks to finance and promotes the application of appropriate technology concepts. UNCDF expenditures for 1988 were about $35 million.

Continued U.S. support for UNCDF is consistent with U.S. interests in bringing grass-roots level assistance to the poorest people with emphasis on appropriate light capital technologies. The United States contribution for FY 1989 was $1.5 million. The U.S. contribution for FY 1990 is also $1.5 million.

4.8.9. International Fund for Agricultural Development (IFAD)

IFAD is a United Nations specialized agency created in 1977 with strong leadership from the United States. It focuses international development assistance on increasing food production in the poorer developing regions. The Fund's activities are directed specifically at small farmers and the landless poor, using concessional loans and grants.

IFAD is primarily a facilitating and co-financing institution for the world's poorest people. For the twelve-year period 1978-1989, cofinanciers invested $3,702.4 million in all projects (34% of total project cost) supported by the Fund compared to IFAD's investment of $2,745.5 million (25% of total project cost). During 1989, IFAD initiated 92% of the projects it funded and cooperating institutions 8%. In 1989, 61% of IFAD's regular loans were highly concessional (50 year term at 1% service fee) and benefited low-income rural people, especially landless families and women. In the 1978-1989 period, 78% of IFAD's loans to Africa were targeted to people with annual per capita incomes below $300 in 1976 prices.

In developing its projects, IFAD closely studies the policy environment of a potential loan to identify potential obstacles to smallholder production. If host country policies discourage small farmer agricultural production (e.g., through controlled prices or state-owned marketing channels), IFAD will work with the recipient government to make the adjustments necessary to establish market-based incentives.

The $2.5 million contribution appropriated by the Congress for FY 1989 is the last installment needed to meet the U.S. commitment of $80 million under IFAD's second replenishment. Third replenishment negotiations were completed in late 1989. The United States plans to contribute $82.8 million to the third replenishment. The Congress appropriated $34.438 million in FY 1990 and the Administration is requesting $6.250 million in FY 1991.

4.8.10. World Food Council (WFC)

The World Food Council (WFC) was created by the General Assembly pursuant to a resolution of the 1974 World Food Conference. The Council is tasked with (a) reviewing annually, at the Ministerial level, major problems and policy issues affecting the world food situation, and (b) making recommendations to the UN system, regional organizations, and governments on how to solve world food problems.

Recent WFC-sponsored discussions have dealt with poverty as the chief cause of hunger and malnutrition. More specific issues on which WFC has focused attention are: international trade and cooperation in food and agriculture, the resulting need for fundamental international policy changes, and specific WFC member countries' activities in these areas. WFC plans to increase communication and coordination with other UN agencies as well as to increase depth of policy analysis, program efficiency, and accountability.

Having neither operational nor financial functions, the WFC has a small budget, primarily for salaries of the staff; and it is funded directly from the UN's operating budget. The small professional staff of WFC is led by an executive director who has traditionally been from the United States.

4.9. Organization of American States (OAS)

Since its creation in 1948, the Organization of American States (OAS) has focused on peacekeeping and security (based on the 1947 Rio Treaty) in the Latin America region. It also has fostered economic development, democratic initiatives, and human rights in Latin American countries. Specific OAS development initiatives which complement current U.S. goals in the region are democracy-building, legal development, and prevention of drug abuse.

Three categories of entities fund OAS economic development initiatives: Western Hemisphere member countries, non-member countries (Canada, Israel, Italy, France, Spain) and other development and international organizations (A.I.D., IDB, the

World Bank, UNDP, UNEP). Argentina, Brazil, Mexico, and Venezuela have gradually become net donors rather than net recipients of OAS development programs. Concomitantly, the U.S. share of voluntary contributions has gradually declined from 66% in the 1960s to just under 50% in FY 1989 and FY 1990. The U.S. voluntary contributions to the OAS in FY 1990 totaled $10 million. These contributions to OAS Development Assistance Programs mobilize human and natural development efforts to promote economic development consistent with U.S. interests in the area.

The OAS has been highly receptive to U.S. economic development policy guidelines and has adjusted its priorities to meet current development needs in the hemisphere. Specifically, these adjustments include efforts to promote democratic initiatives such as the OAS Legal Development Program, and the special electoral assistance program for Haiti. The latter program was inspired by the U.S. Administration of Justice program to enable member countries to apply their own laws more effectively while promoting due process for all. In 1987 the OAS also approved a comprehensive program on drug abuse and trafficking for the entire hemisphere.

Other current priority areas of technical assistance include marine resource development, pre-investment feasibility studies, training, Inter-American centers. These programs are implemented through four OAS voluntary funds for development: the Special Multilateral Fund (SMF), the Special Projects Fund (SPF), the Special Development Assistance Fund (SDAF), and the Special Cultural Fund (SCF).

OAS programs have achieved notable accomplishments to date: 91,000 specialists have been trained; financial support from non-member countries and institutions is increasing, reflecting confidence in the Organization; and OAS pre-investment feasibility studies have generated over $6.5 billion in down-stream loans from the World Bank and Inter-American Development Bank. These accomplishments have been effected by OAS under continued budget austerity. Budget economies, reprogramming, and focus on priorities have enabled the OAS to carry out its activities with zero real growth since 1982.

Chapter 5.

Comprehensive Development Budget

This chapter outlines the Administration's funding request for economic and development assistance and development-related programs for FY 1991.

5.1. Trends in U.S. Economic Assistance

As noted previously in Chapter 3, since economic assistance became a factor in international relations after World War II, the United States has been the largest and most creative aid provider. In no year throughout this period has any other provider come close to the U.S. aid level in dollar terms; however, most countries have exceeded U.S. assistance as a percent of GNP in recent years (see Table 3.1.). Also, the U.S. share of all official development assistance has dropped -- from 28% ten years ago to approximately 21% now, while Japan's share has increased significantly -- from 11% to 19% -- and may surpass the United States in 1990. The United States pioneered the projectizing of aid, it sponsored the creation of the international lending agencies, it made the poorest classes a target group, it led the creation of the international agricultural research centers, it was the main force in shifting worldwide aid budgets toward the private sector, it spearheaded the growing trend to policy-based assistance, and it is still unique among national and international donors in implementing its program through resident field missions.

Both Development Assistance and the Economic Support Fund are authorized under the Foreign Assistance Act of 1961 and are administered by A.I.D. Table 5.1 shows trends in Economic Support Fund and Development Assistance over the years 1979-1991.

The Administration's total requested budget authority for bilateral and multilateral development programs in FY 1991 of $9,261.6 million appears in Table 5.2. The table also shows the actual budget authority for FYs 1988, 1989, and 1990.

5.2. Agency for International Development

A.I.D. is requesting a total appropriation of $6.283 billion for Development Assistance, the Economic Support Fund and Special Assistance Initiatives for FY 1991. A.I.D.'s program for FY 1991 is based on three broad development goals: (1) economic growth that is broad-based and sustainable in both economic and environmental terms; (2) human capacity development with

Table 5.1.
U.S. Economic Assistance Obligations by A.I.D. Administered Programs
Fiscal Years 1979 - 1991 1/ (US $ Millions)

Development Assistance (Functional Accounts Plus Sahel/DFA)

Year	Africa	Asia	LAC	NE/E	Centrally Funded Programs	Total
1979	248.3	397.8	246.5	42.6	257.1	1,192.3
1980	268.0	392.3	257.0	34.3	256.3	1,207.9
1981	300.3	397.2	233.3	61.2	282.0	1,274.0
1982	328.8	400.3	280.8	39.4	346.7	1,396.0
1983	315.3	392.2	328.9	43.7	361.2	1,441.3
1984	340.0	392.0	295.3	51.8	400.8	1,480.3
	Africa	Asia/NE	LAC	DR/U*	CFP	TOTAL
1985	352.2	493.9	507.4		527.3	1,880.7
1986	378.9	442.1	461.5		431.5	1,714.0
1987	396.7	427.9	436.7		405.5	1,666.9
1988	553.6	388.5	415.9		470.2	1,828.3
1989	578.4	416.5	414.7		441.1	1,850.7
1990	573.3	566.2 2/	349.3	16.0*	432.4	1,937.3 2/
1991	560.5	904.5 3/	374.6		428.9	2,268.5 3/

PL 480 Title I

Year	Africa	Asia	LAC	NE/E	Centrally Funded Programs	Total
1979	82.7	273.4	72.5	312.8	43.6	785.0
1980	140.0	280.7	93.6	352.8	0.0	867.1
1981	147.4	195.2	82.2	368.6	0.0	793.4
1982	124.0	149.0	126.6	320.0	73.0	792.6
1983	144.1	167.5	193.4	290.5	54.0	849.5
1984	127.0	183.0	180.5	313.0	47.0	850.5
	Africa	Asia/NE	LAC		CFP	TOTAL
1985	182.4	558.0	260.6		98.7	1,099.7
1986	160.2	506.9	197.4		124.2	988.7
1987	131.4	454.0	197.7		127.6	910.7
1988	82.4	466.4	167.0		47.8	763.6
1989	95.5	467.0	172.7		32.3	767.5
1990	101.5	427.4	164.0		156.1	849.0
1991	94.0	395.0	184.0		144.0	817.0

Economic Support Fund

Year	Africa	Asia	LAC	NE/E	Centrally Funded Programs	Total
1979	53.0	0.0	8.0	1,881.3	0.2	1,942.5
1980	132.7	22.0	15.2	1,988.2	0.1	2,158.2
1981	163.0	32.0	143.4	1,860.0	0.9	2,199.3
1982	294.8	155.0	328.9	1,991.1	0.5	2,770.3
1983	286.1	255.8	500.4	1,929.1	0.1	2,971.5
1984	333.1	280.0	464.1	2,063.7	5.2	3,146.2
	Africa	Asia/NE	LAC	DR/U*	CFP	Total
1985	417.8	3,837.5	985.0		7.0	5,247.4
1986	245.2	4,006.4	659.5		1.5	4,913.0
1987	164.8	2,927.9	818.5		1.0	3,912.3
1988	39.7	2,495.9	484.8		0.4	3,020.8
1989	99.3	2,816.4	461.7		34.3	3,411.7
1990	13.9	2,971.3	980.3 4/	3.6*		3,969.0 4/
1991	56.1	2,636.0	651.9			3,344.0

PL 480 Title II

Year	Africa	Asia	LAC	NE/E	Centrally Funded Programs	Total
1979	87.1	192.8	63.3	56.2	149.8	549.2
1980	153.3	256.3	58.9	40.3	209.3	718.1
1981	174.7	289.0	90.7	56.2	0.0	610.6
1982	84.6	239.4	59.8	84.4	155.8	624.0
1983	95.2	215.2	76.2	57.9	155.0	599.5
1984	144.3	158.8	59.9	47.1	329.9	740.0
	Africa	Asia/NE	LAC		CFP	Total
1985	53.0	152.5	39.5		823.0	1,068.1
1986	187.4	227.5	63.2		280.6	758.7
1987	112.8	168.7	45.8		224.9	552.3
1988	205.5	223.6	74.2		211.9	715.2
1989	154.2	263.5	93.5		187.8	699.0
1990	104.8	153.6	86.0		328.2	672.6
1991	83.7	149.7	67.4		345.2	646.0

*Disaster Reserve/Unallocated

1/ FYs 1979-1989 reflect actual obligations; FY 1990 figures are estimates; FY 1991 figures are request levels.
2/ The FY 1990 total includes $159.3 million for the Multilateral Assistance Initiative for the Philippines from the Special Assistance Initiatives.
3/ The FY 1991 total includes $500 million for the Special Assistance Initiatives: $200 million for the Multilateral Assistance Initiative for the Philippines and $300 million for East European Regional Economic Stabilization Support.
4/ The FY 1990 ESF total includes $500 million supplemental request for Panama and $15 million Disaster reserve plus $15.125 million Section 517.

SOURCE: Various A.I.D. Congressional Presentation Volumes

Doc #3143C

TABLE 5.2
IDCA COMPREHENSIVE DEVELOPMENT BUDGET
(Budget Authority in Millions of Dollars)

	FY 1988 ACTUAL	FY 1989 ACTUAL	FY 1990 APPROP	FY 1991 REQUEST
BILATERAL ASSISTANCE				
A.I.D. Development Assistance..../1	2,363.4	2,400.9	2,409.9	2,424.5
Trade & Development Program........	25.0	25.0	31.5	30.0
Overseas Private Investment Corporation (OPIC)............/2	--	--	--	--
Food for Peace (PL 480)........../3	1,059.6	1,098.1	978.2	897.9
Economic Support Fund.............	3,269.4	3,301.5	3,694.0 7/	3,358.0
Special Assistance Initiatives.....	--	--	159.3	500.0
Central Am Reconciliation Asst.....	27.7	36.3	26.4	--
Peacekeeping Operations...........	31.7	31.7	32.8	32.8
Anti-Terrorism Assistance..........	9.8	9.8	10.0	12.0
Peace Corps.......................	146.2	153.5	165.6	181.1
Narcotics......................../4	98.8	101.0	113.0	150.0
Inter-American Foundation..........	13.0	16.6	16.9	16.9
African Development Foundation.....	7.0	8.0	8.9	11.5
Migration & Refugee Assistance.../4	362.5	489.0	488.2 8/	475.6
Subtotal, BILATERAL...........	7,414.1	7,671.4	8,134.7	8,090.3
MULTILATERAL ASSISTANCE /5				
International Bank for Reconstruction & Development.....	40.2	50.0	49.8	110.6
International Development Association.....................	915.0	995.0	960.9	1,064.2
Contribution to the Special Facility for Sub-Saharan Africa	--	--	--	--
International Finance Corp.........	20.3	4.9	74.6	40.3
African Development Bank...........	9.0	7.3	9.4	10.1
African Development Fund...........	75.0	105.0	104.5	105.5
Asian Development Bank.............	15.1	--	--	--
Asian Development Fund.............	28.0	152.4	175.0	301.8
Inter-American Development Bank....	31.6	--	31.5	57.4
Fund for Special Operation.......	25.7	--	63.5	20.9
IADB Investment Corporation......	1.3	--	--	25.5
MIGA..............................	44.4	--	--	--
International Organizations & Programs....................	214.6	223.6	239.7	218.8
(UN Development Program).........	(110.0)	(109.9)	(107.8)	(108.5)
(UN Children's Fund (UNICEF)).....	(54.4)	(60.4)	(64.4)	(50.0)
(Organization of American States)	(12.0)	(10.0)	(9.8)	(10.0)
(Other IO Programs)............/6	(38.2)	(43.3)	(57.7)	(50.3)
International Fund for Agricultural Development.........	30.0	2.5	34.4	6.3
Subtotal, MULTILATERAL............	1,450.2	1,540.7	1,743.3	1,961.3
Gross Total.......................	8,864.3	9,212.1	9,878.0	10,051.6
Offsetting Receipts (A.I.D.).......	(787.0)	(844.4)	(790.0)	(790.0)
GRAND TOTAL.......................	8,077.3	8,367.7	9,088.0	9,261.6

Table 5.2 Continue

/1 A.I.D. DA excludes Miscellaneous Trust Funds; includes IDCA/A.I.D. Operating Expenses and the Foreign Service Retirement Fund.

/2 OPIC does not request Budget Authority. Authority for loan guarantees is: FY 1988 - $200 million; FY 1989 - $175 million; FY 1990 - $211.5 million; FY 1991 - $185 million.

/3 PL 480 program levels are: FY 1988 - $1,478.8; FY 1989 - 1,466.5 million; FY 1990 - $1,521.6 million; FY 1991 - $1,463.0 million.

/4 Migration & Refugee Assistance and Narcotics included for information purposes only, as they are not development activities.

/5 Does not include callable capital for the Multilateral Development Banks.

/6 Includes: International Atomic Energy Agency, World Meteorological Organiztion, UN Capital Development Fund, UN Development Fund for Women, UN Education and Training Program for Southern Africa, Convention on International Trade in Endangered Species, UNIDO Investment Promotion Service, UN Environmental Program, UN Fund for Victims of Torture, World Food Program, UN Trust Fund for South Africa, UN Institute for Namibia, UN Fellowhip Program, World Heritage Trust Fund, ICSOC, UN Center on Human Settlements, UN Afghanistan Emergency Trust Fund, Intergovernmental Panel on Climate Change, UN Trust Fund for International Research and Training Institute for the Advancement of Women, UN Fund for Drug Abuse Control, International Civil Aviation Organization, UN Conference on Trade and Development, and UN Economic and Social Commission for Asia and the Pacific.

7/ Includes $500 million supplemental request and $15 million deob/reob for Panama.

8/ Includes $70 million supplemental request.

particular emphasis on health and education levels required to enable all citizens to contribute to and benefit from economic progress; and (3) pluralism, including the promotion of democracy, freedom and competition in the political, economic and social institutions of a nation. This budget also reflects the Administration's most critical foreign policy objectives: protection of our national security interests; alleviating suffering of the world's poor; supporting the war on narcotics; and promoting U.S. trade abroad.

5.2.1. Development Assistance

For FY 1991, A.I.D. is requesting $2.4 billion for Development Assistance. This figure includes $1.2 billion for development programs previously funded under the traditional functional accounts; $560.5 million for the Development Fund for Africa (DFA), which Congress approved in FY 1988; and $633 million for American Schools and Hospitals Abroad, International Disaster Assistance, and Operating Expenses and the Foreign Service Retirement and Disability Fund. Guaranty authority is requested for additional programs, including the Private Sector Revolving Fund, the Trade Credit Insurance Program, and the Housing Guaranty Program.

5.2.1.1. Development Fund for Africa

As noted in Chapter 3, in FY 1988, Congress approved at A.I.D.'s request this special funding mechanism for sub-Saharan Africa to allow flexibility in promoting economic growth in the world's poorest region. The FY 1991 request level for the DFA is $560.5 million, which includes the Southern Africa Development Coordination Conference (SADCC) program ($50 million) and continuation of the Africa Economic Policy Reform Program ($55 million). Through the DFA, A.I.D. is pursuing new approaches to improve the coherence and effectiveness of U.S. assistance to the region and promote economic growth which is broad-based, market oriented, and, above all, sustainable. Program focus is shifting to sector-specific constraints to development, and resources are increasingly allocated on the basis of economic performance and potential for growth, as well as need.

5.2.1.2. Development Programs*

A.I.D. is requesting $1.231 billion in FY 1991 for development programs as noted above and in Chapter 3.

---

* This request covers funding previously requested under the functional Development Assistance accounts. It excludes programs covered under the Development Fund for Africa, discussed above.

This request covers funding previously requested under the following accounts: Agriculture, Rural Development and Nutrition; Population Planning, Health; AIDS Prevention and Control; Child Survival Fund; Education and Human Resources Development; and Private Sector, Environment and Energy; and Science and Technology.

The development program request includes $75 million for a new Development Policy Reform Program (DPRP) to support progress toward open markets and open societies. The DPRP would be performance-based and modeled on the successful Africa Economic Policy Reform Program. The budget request allocates $50 million for Asia, Near East and Eastern Europe countries and $25 million for Latin America and Caribbean countries.

5.2.2. Economic Support Fund

For FY 1991, the Administration is requesting $3.358 billion for the Economic Support Fund (ESF), including $14.0 million under deobligation/reobligation authority to address economic, structural, and development problems in countries of particular security and political interest to the United States.

5.2.3. Special Assistance Initiatives (SAI)

In FY 1990, Congress enacted legislation to establish this new account. It provides funds to meet extraordinary conditions in developing countries and was inaugurated in FY 1990 with $159.3 million for the Philippines. For FY 1991, the Administration is requesting $500 million which would include an additional $200 million for the Philippines and $300 million for East European Regional Economic Stabilization Support.

5.3. Food for Peace (P.L. 480) Program

As explained in Chapter 3, Public Law 480 (P.L. 480) provides for two basic types of food aid -- concessional sales (Title I) and grant (Title II). A second source of food aid is Section 416, which authorizes the use of U.S. Government surplus commodities, when available.

Total budget authority requested for Title I in FY 1991 is $251,853,000, which excludes carry-forward and estimated receipts totalling $565,147,000. This would bring the FY 1991 program level to $817 million, which will finance shipments of an estimated 4.4 million tons of food aid. This figure includes $54.5 million to finance freight differentials. With the exception of the freight differential, in general, recipient governments must cover all costs associated with transporting the commodities from the United States to their own countries.

The Title II level budget authority requested for FY 1991 is $646 million, which includes $242.2 million for ocean transportation to all countries and overland delivery to landlocked countries. An estimated 1.9 million metric tons of food can be provided at this funding level.

In FY 1991, the U.S. provision of 362 thousand metric tons of food, valued at $76.7 million, is planned for both regular and emergency feeding programs of the UN/FAO-sponsored World Food Program (WFP). The United States, with eleven other major donors, biennially pledges food, services (such as ocean transport costs), and cash to WFP for projects similar to those sponsored by U.S. voluntary agencies. (These figures are for planning purposes only pending a formal U.S. pledge.)

FY 1991 program levels of Section 416 surplus commodities, unknown at this time, will depend upon the Commodity Credit Corporation (CCC) inventory and commodity availability.

5.4. International Fund for Agricultural Development (IFAD)

The U.S. completed its contribution to IFAD's second replenishment in FY 1989. The Administration is requesting $6.250 million in FY 1991, which along with $34.438 appropriated in FY 1990, will fulfill half the U.S. obligation for the third replenishment.

5.5 Multilateral Development Banks

The multilateral development banks (MDBs) play an major role in international economic assistance efforts. A significant proportion of the funds going to developing countries flows through the MDBs and U.S. contributions to their programs are an important part of the total U.S. economic assistance program.

The Administration's request for FY 1991 to meet our comitments to the MDBs is $1.7 billion. Chapter 4 discusses U.S. funding to MDBs in greater detail.

5.6 International Organizations and Programs

The Administration's request of $225 million for FY 1991 will fund U.S. voluntary contributions to international organizations and programs that support development, humanitarian and scientific activities. Three new items are proposed in the account this year -- contributions for the International Tropical Timber Organization, the Tropical Forestry Action Plan and the World Meteorological Organization Climate Studies Fund -- which reflect increased concern for global environmental issues.

The UNDP is the largest single source for grant multilateral technical assistance to developing countries, with projects in more than 150 countries. The FY 1991 request for the UNDP is $108.5 million.

UNICEF, the UN Children's Fund, continues to play a major role in addressing the many problems affecting children in the world. UNICEF assistance includes both goods and expert services and its programs have a widespread, positive impact on the well-being of the neediest, most vulnerable population groups. The Administration's request for UNICEF contributions in FY 1991 is $50 million.

The remaining $66.5 million request for International Organizations and Programs will support activities conducted by the following organizations: International Atomic Energy Agency, UN Environment Program, Organization of American States' Development Assistance Programs, Afghanistan Emergency Trust Fund, the International Convention and Scientific Organization Contributions, World Meteorological Organization, Capital Development Fund, International Tropical Timber Organization, Educational and Training Program for Southern Africa, Investment Promotion Service, Special Fund for Climate Studies, Tropical Forestry Action Plan, Convention on International Trade in Endangered Species, Trust Fund for South Africa, Intergovernmental Panel on Climate Change, and Voluntary Fund for Victims of Torture, and IFAD, which was discussed earlier.

5.7. Peace Corps

The Peace Corps continues to stress a broad-based, grass-roots approach to development, frequently in collaboration with A.I.D. programs. The FY 1991 request for Peace Corps programs is $181.1 million.

5.8. Trade and Development Program

The Trade and Development Program (TDP) finances planning activities for capital projects which will enhance the productive capacities of developing countries and encourage the use of U.S. technology, goods and services in the implementation of these projects. The result has been increased private sector involvement in development efforts. TDP-financed activities have already generated an estimated $1.2 billion in U.S. exports from the approximately $113 million invested from FY 1981 to FY 1988. The Administration is requesting $30 million for this program in FY 1991.

5.9. Overseas Private Investment Corporation

The Overseas Private Investment Corporation (OPIC) operates on a self-sustaining basis, requiring no congressionally appropriated funds. OPIC provides political risk insurance, finance and loan guarantees to U.S. investors in new or expanding businesses in developing countries. OPIC's insurance covers a portion of the loss that a U.S. investor would incur in the event of currency convertibilty problems, expropriation, war, revolution, insurrection or civil strife. OPIC's direct loans and loan guarantees on commercial terms are provided to new or expanding privately owned and operated businesses in developing countries.

ACRONYMS

A.I.D.	-	Agency for International Development
ADB	-	Asian Development Bank
ADF	-	African Development Foundation
ADF	-	Asian Development Fund
AfDB	-	African Development Bank
AFIC	-	Asian Finance and Investment Corporation
AfDF	-	African Development Fund
AIDS	-	Acquired Immunodeficiency Syndrome
ASHA	-	American Schools and Hospitals Abroad
CBI	-	Caribbean Basin Initiative
CCC	-	Commodity Credit Corporation
CCFF	-	Compensatory and Contingency Financing Facility
CG	-	Consultative Group
CITES	-	Endangered Species Convention
DA	-	Development Assistance
DAC	-	Development Assistance Committee of the OECD
DFA	-	Development Fund for Africa
EPN	-	Early Project Notification
ESAF	-	Enhanced Structural Adjustment Facility
ESF	-	Economic Support Fund
FAO	-	Food and Agriculture Organization of the United Nations
FSO	-	Fund for Special Operations
GATT	-	General Agreement on Tariffs and Trade
GCI	-	General Capital Increase
GDP	-	Gross Domestic Product
GEMS	-	Global Environmental Monitoring System
GNP	-	Gross National Product
GSP	-	Generalized System of Preferences
HG	-	Housing Guaranty
IAF	-	Inter-American Foundation
IBRD	-	International Bank for Reconstruction and Development ("World Bank")
IDA	-	International Development Association
IDB	-	Inter-American Development Bank
IDCA	-	International Development Cooperation Agency
IFAD	-	International Fund for Agricultural Development
IFC	-	International Finance Corporation
IIC	-	Inter-American Investment Corporation
IMF	-	International Monetary Fund
IPCC	-	Intergovernmental Panel on Climate Change
IPS	-	Investment Promotion Service
LDC	-	Less Developed Country
MDB	-	Multilateral Development Bank
MIGA	-	Multilateral Investment Guarantee Agency
NGO	-	Non-governmental Organization
NIC	-	Newly Industrialized Country
NOEDC	-	Non-oil Exporting Development Country

OAS	-	Organization of American States
OECD	-	Organization for Economic Cooperation and Development
OFDA	-	Office of Foreign Disaster Assistance of A.I.D.
OPEC	-	Organization of Petroleum Exporting Countries
OPIC	-	Overseas Private Investment Corporation
ORT	-	Oral Rehydration Therapy
PAHO	-	Pan American Health Organization
PCV	-	Peace Corps Volunteer
PFP	-	Policy Framework Paper
PVO	-	Private and Voluntary Organization
RPB	-	Regular Program Budget
SADCC	-	Southern Africa Development Coordination Conference
SAF	-	Structural Adjustment Facility
SAI	-	Special Assistance Initiative
SCF	-	Special Cultural Fund of OAS
SDAF	-	Special Development Assistance Fund of OAS
SDR	-	Special Drawing Right
SMF	-	Special Multilateral Fund of OAS
SPF	-	Special Projects Fund of OAS
TDP	-	Trade and Development Program
TFF	-	Trade Financing Facility
UN	-	United Nations
UNCDF	-	United Nations Capital Development Fund
UNDP	-	United Nations Development Program
UNEP	-	United Nations Environment Program
UNFPA	-	United Nations Fund for Population Activities
UNGA	-	United Nations General Assembly
UNHCR	-	United Nations High Commission of Refugees
UNICEF	-	United Nations Children's Fund
UNIDO	-	United Nations Industrial Development Organization
WFC	-	World Food Council
WFP	-	World Food Program of the U.N. FAO
WHO	-	World Health Organization
WMO	-	World Meteorological Organization