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DEVELOPMENT COORDINATION COMMITTEE

FOREIGN ASSISTANCE STUDY

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PART I: THE UNITED STATES AND THE DEVELOPING WORLD: THE ROLE OF FOREIGN ASSISTANCE

This section examines the multiple U.S. interests in the developing world, the diverisity among developing countries, the various instruments with which we can influence their development prospects--and in particular, the role of foreign assistance in addressing our interests.

We will present various possible assistance strategies for supporting these interests. Security Assistance programs are discussed as an essential element of any strategy, but the paper focuses mainly on development assistance programs and issues.

The paper discusses a basic policy for U.S. development assistance programs, both bilateral and multilateral, over the next five years and beyond. That policy is based on the critical importance of improving the lot of the poor majorities in the less developed countries (LDCs). It focuses principally on meeting basic human needs and supporting LDC growth strategies which provide greater equity. It requires developed nations to increase their assistance levels and LDCs to undertake significant reform of their domestic policies and priorities. Finally, it accords with the foreign policy pronouncements of the Administration, especially its concern for human rights, and is consistent with the "New Directions" for foreign assistance mandated by the Congress.

A. The United States Stake in the Developing World

The United States has vital economic, political, security, and humanitarian interests in the less developed countries. In many respects their development is basic to the realization of U.S. interests.

Looking at these interests in a negative way, we can see that if present trends in world hunger, population growth, environmental degradation, energy shortages, resource depletion, nuclear weapons, proliferation, and armed conflict continue unabated, the world by the end of this century could become increasingly unstable, suffer economic stagnation, and be a much more dangerous place in which to live.

Close to seven billion people will be crowded into it, compared to half that number today. Average standards of living could well drop significantly not only for the inhabitants of the poor countries, already living at subsistence, but for most of us. Many more people throughout the world would be malnourished and die early of hunger and disease. Political freedom and respect for individual rights could be confined to only a corner of the earth, and under increasing attack. Such circumstances of poverty and economic and political tension have throughout history bred violence, domestically and internationally.

There is no way that we in the richer countries could avoid being affected by these global problems, any more than those in the poor countries can. Indeed all the world's people have a clear stake in changing this picture for the better. And the shape of the world to come will depend on the effort we begin to make now. If we delay action, the future costs, in terms of both human suffering and resources, could accelerate sharply.

In this effort the developing countries must play a major role. Without their commitment and cooperation little will be achieved. The United States must, therefore, support those efforts which contribute to economic, social, and political advancement of the developing world. In this endeavor, foreign assistance constitutes one range of instruments which can be used to help shape the future in ways more compatible with our interests; it can be used to affect the way LDC governments approach a whole range of issues--from their actions to address global human problems of food and population growth; to their interest in making peace with their neighbors, their cooperation in the development of nuclear weapons, and their actions with respect to the international economic system.

The American people are gaining a new perspective of this growing interdependence. In the past, our size, strength, and near self-sufficiency made us much less dependent on external economic conditions than most countries. That era is now disappearing. There is a clear interaction of domestic and international events.

Now let us turn to some global economic development problems with which the United States and other nations--rich and poor--must grapple, and which serious development efforts can help solve. Depending upon one's perspective, their order of importance can be ranked differently. Some experts believe that population growth should lead the list. Other global problems in food, environment, and energy will be aggravated by the extent to which the world is unable to restrain population growth and wisely plan human settlements. Broad-based development that raises living standards and provides incentives for smaller families is fundamental to coping with population growth.

Even if population growth rates are beginning to slow, a recently completed National Academy of Sciences study--"World Food and Nutrition" (1977)--points out that to meet estimated basic demands for food and to reduce large-scale malnutrition, LDC food production will have to double before the end of this century. The major food exporting countries, such as the United States, Canada, and Australia, could not produce, transport, and finance the enormous food requirements of the developing world. Therefore, the developing countries must undertake significant efforts to increase their own food production and distribution. Over the longer run, increasing food production in the developing world is the only way to prevent malnutrition and famine as well as major increases in food prices throughout the world, including the American supermarket.

We are also becoming acutely aware that economic development for many countries has not adequately taken into account the cost of environmental damage. Helping LDCs develop in an environmentally sound way can help prevent unwarranted deterioration of the world's natural resources. Fishing, agriculture and land and water resources have been seriously damaged by ill-considered projects in which environmental impact is ignored. This is particularly true in less developed countries eager for speedy development. The deterioration of the environment in the less developed world has long term implications for the quality of life everywhere. As but one example, it has been shown recently that the growing desertification of the world is taking large amounts of scarce land out of cultivation and through erosion is polluting the world's atmosphere.

Although current LDC consumption of energy is not high relative to total world demand, energy conservation and development in the LDCs is not only essential for their future economic development, but also can help relieve pressure in longer-run energy prices by helping increase the availability of energy resources.

The development of LDCs is essential for making progress on these global development problems and is vital to U.S. basic economic, political, and humanitarian interests.

U.S. Economic Interests

From a more traditional economic perspective, accelerating LDC growth will make them better trading partners and will contribute to increasing U.S. income and jobs. LDCs are important sources of critical raw materials for the United States. They are also important markets for our products; in 1975, for example, we exported $29 billion in goods to the non-oil LDCs--three times the 1970 figure, three times our exports to Japan, and $3 billion more than our exports to all of industrial Europe. In addition, the LDCs provide important opportunities for investment. In 1975, $6.4 billion--45% of the United States direct investment abroad--was invested in the LDCs. Accumulated United States investment in the LDCs in 1975 totaled $35 billion, about one-fourth of our total foreign investments in that year. Therefore, a fundamental element of our foreign policy is the expansion of an open international economic system which emphasizes the increasingly more important role of the LDCs.

The developing countries are increasingly demanding a greater measure of economic support and participation in the international economic system. This has led in recent years to proposals for a New International Economic Order, and the North-South confrontation reflected in LDC demands for "automatic" resource transfer mechanisms, e.g., general debt moratoria, SDR-links, and commodity price indexation. Regardless of the merit or justification of these actions, we need to offer viable options to the developing world. It is evident that the greater the LDC stake in a stable and prosperous international order, the greater the likelihood that the LDCs will support that order. Development in the LDCs is essential to achievement of an open and prosperous international trading system. It will also provide the required underpinning for greater international cooperation on a wide range of political and economic issues.

U.S. Political and Security Interests

In terms of our political and national security interests, LDC cooperation is essential for global and regional stability and to maintain peace. Conflicts within and among smaller nations often have a way of involving major powers, and we need LDC cooperation to control nuclear proliferation and arms build-ups. United States security depends on our economic and military strength and that of friendly nations, including key LDCs.

Security assistance can complement developmental assistance and other forms of cooperation to reinforce our political and security interests and protect economic development. Security Supporting Assistance (SSA) is bilateral economic assistance--including cash grants, commodity imports financing and the financing of development projects--designed especially for meeting short-term political or security needs. However, Congress has mandated that SSA should be programmed in such a way that it benefits the recipient country's longer-run development problems and conforms to the extent possible to the "New Directions" guidelines. Our military assistance, training, and sales programs also support our broad objectives in the LDCs. Close coordination with our development programs is necessary to help secure a realistic distribution of LDC resources between legitimate security demands and requirements for development.

U.S. Humanitarian Interests

Finally, and no less important, the United States has a deep and abiding humanitarian interest in helping to alleviate the suffering of the approximately one-quarter of the world's population living in destitution and desperation. Our humanitarian concern and historic record of generosity reflect the most profound and firmly held beliefs of the American people.

This Administration has also spoken out forcefully on human rights. It has rekindled hope on the part of millions of people who aspire to live in freedom and independence. We must recognize, however, that for large portions of the world's population, the most fundamental human rights--to an adequate diet, basic health care and other necessities of life--are still to be obtained. United States economic assistance can thus tangibly express our support for human rights by helping people achieve the better life which is an essential complement to other human rights.

These are only a sample of the challenges and opportunities facing the United States and the developing world. They must be dealt with in a systematic fashion; many of them are long-term and we must therefore be careful not to lose sight of them as we attend to more immediate concerns. In addition, meeting our development objectives will require careful coordination of both our assistance programs and other instruments of foreign and domestic policy.

In the following sub-chapter we shall offer a perspective on how the United States has dealt with problems of development abroad over the past thirty years and what instruments will be used to carry on this effort in the future.

B. Perspectives and Context of United States Assistance

United States development assistance has passed through many stages since World War II. The Marshall Plan captured the imagination of the world when it was announced in 1947. It was bold. It was, like any good assistance program, in the mutual interest of donor and recipient. And it was soon successful. But it was directed to industrialized nations possessing highly skilled workforces and highly developed institutions; what was needed was raw materials and machinery to reconstruct the war-torn economies of Western Europe threatened by Soviet aggression. Moreover, it was generously financed. The Marshall Plan at its peak provided assistance about twelve times as large, as a percent of United States GNP, as present United States official development assistance.

When assistance for emerging nations began during the post-colonial period, the basic premises of our aid program needed to be altered. The emerging countries did not possess the institutions, the trained personnel, or the productive capability to sustain rapid development. Our assistance programs adjusted to these circumstances with varying degrees of success.

In terms of overall growth, the positive performance of all the developing countries over the past 25 years has no recorded precedent. Agricultural production has risen faster than in the developed countries, although higher population growth rates adversely affected per capita production in many developing countries. For millions of people, basic education and health services have been improved.

However, among the developing countries there is substantial diversity. Some developing countries, e.g., South Korea, Brazil, Colombia, Taiwan, Turkey, have achieved such high rates of growth that concessional assistance has virtually ended, and our principal forms of economic interaction with them are largely in the areas of commercial trade, private capital flows, and transfer of technology. Large numbers of LDCs still have such low levels of per capita income, and their economies are at such a rudimentary level, that development assistance will have to be continued for some years and will be a major focal point of their relationships with the United States and other industrialized countries.

The United States spends more than any other nation on development assistance. But the total figure for the U.S. has declined progressively as a percent of our GNP, while many other nations spend relatively more of their GNP on development assistance. Today the United States ranks twelfth on this list. (See Tables I and II.) In addition, whereas in the period 1964-66, the United States provided 56% of the total assistance flows from all donors, by 1976 we were providing only 22%. (See Table III.)

DAC* Donor Performance

	1976 ODA** as % of GNP	1965-67 Average ODA % of GNP
Sweden	0.82	0.23
Netherlands	0.82	0.44
Norway	0.71	0.17
France	0.62	0.72
Denmark	0.57	0.18
Belgium	0.51	0.49
Canada	0.47	0.28
Australia	0.42	0.56
New Zealand	0.42	0.21
United Kingdom	0.38	0.45
Germany	0.31	0.38
United States	0.26	0.45
Japan	0.20	0.29
Switzerland	0.19	0.08
Finland	0.18	0.04
Italy	0.16	0.15
Austria	0.10	0.13

*DAC: Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD).

**ODA: Official development assistance is based on a mutually agreed DAC definition. It includes all economic assistance: bilateral aid contributions to the international financial institutions, U.N. development organizations, food aid (for the United States it also includes our Supporting Assistance programs) which is aimed at promoting the economic development of the recipient country and is concessional in character containing a grant element of at least 25%. ODA is recorded on the basis of disbursements net of principal repayments.

The pattern of decline in United States GNP devoted to foreign assistance is shown below.

U.S. ECONOMIC ASSISTANCE AS A PERCENT OF GNP*
GROSS OBLIGATIONS AND LOAN AUTHORIZATION BASIS

Fiscal Year	Total
1950	1.81
1951	1.10
1952	0.71
1953	0.63
1954	0.66
1955	0.64
1956	0.60
1957	0.67
1958	0.56
1959	0.60
1960	0.60
1961	0.66
1962	0.82
1963	0.76
1964	0.66
1965	0.63
1966	0.66
1967	0.51
1968	0.49
1969	0.39
1970	0.38
1971	0.34
1972	0.35
1973	0.33
1974	0.29
1975	0.34
1976	0.29

*These figures reflect fiscal year gross commitments of U.S. economic assistance while DAC figures on the previous page reflect calendar year ODA net disbursement figures and, therefore, are not directly comparable.

TABLE III

NET OFFICIAL DEVELOPMENT ASSISTANCE TO DEVELOPING COUNTRIES AND MULTILATERAL AGENCIES

	$ Million				As percent of total				As percent of GNP			
	1964-66 Average	1973	1975	1976	1964-66 Average	1973	1975	1976	1964-66 Average	1973	1975	1976
DAC Countries	5,926	9,351	13,585	13,688	96	79	68	71	0.44	0.30	0.36	0.33
U.S.	(3,453)	(2,968)	(4,007)	(4,334)	(56)	(25)	(20)	(22)	0.49	0.23	0.26	0.26
Other DAC	(2,473)	(6,383)	(9,578)	(9,354)	(40)	(54)	(48)	(48)	0.38	0.35	0.42	0.38
OPEC Countries	a/	1,274	5,434	5,073	a/	11	27	26	a/	1.35	2.64	2.09
USSR, Eastern Europe and China	243 b/	1,150	875	543	4	10	4	3	n.a.	0.09	0.05	0.03
Total	6,169	11,775	19,894	19,304	100	100	99 c/	100				

a/ Not available. Probably negligible.
b/ Average for 1954-66.
c/ Doesn't add to 100, due to rounding error.

Sources: Development Assistance Committee (DAC).
DAC Chairman's Reports for 1976 and 1977.
Central Intelligence Agency.
Communist Aid to the Less Developed Countries of the Free World, 1976.

The trends toward declining assistance levels lend support to the assertion that large foreign assistance programs in the past had been related to the East-West confrontations, and that recent declines reflect popular reaction against the massive use of foreign assistance in Indochina. But they also reflect among the American people a lack of understanding of the long-run nature of development problems of the less developed countries, as well as disappointment with the evident failure of the development process to produce more democratic and egalitarian governments and social systems.

Decreasing United States assistance, relative to its economic strength, provided the backdrop along with LDC dissatisfaction on trade, investment and other economic issues, against which the developing countries have pressed for the establishment of the New International Economic Order.

This confrontational relationship with the Third World cannot be remedied within a few months. But President Carter's addresses at the United Nations and at Notre Dame outlined new American objectives in the Third World. Secretary Vance's statements at the Conference on International Economic Cooperation (CIEC) in May, 1977, and at the OECD the following month, have extended and amplified the President's remarks. At CIEC the Secretary of State pledged support for:

-- A substantial increase in American foreign assistance over the next five years;

-- Favorable treatment for LDC exports in the multilateral trade negotiations;

-- Efforts to reach a successful agreement on a Common Fund, and other commodity arrangements;

-- Agreement on a system of national held food reserves.

At both CIEC and the OECD, moreover, the United States proposed a basic human needs approach to development assistance and gained acceptance of this approach from other donor nations.

These initiatives have opened the way for a more constructive and cooperative relationship with the LDCs. We have tried to respond to the LDC complaints. We have implicitly endorsed some elements of the New International Economic Order after having previously opposed them. We have signaled the Third World that we support their broad economic goals, if not necessarily the proposed means or timetable for reaching them. To overcome well-established and well-founded suspicions, however, we must now support our assertions with action.

To do so will require on our part a reaffirmation of our global outlook and actions commensurate with our global interests. These interests and our position of leadership in the Free World require that we have flexible and comprehensive assistance programs geared to the full range of our economic, political, and humanitarian objectives. Other donors have concentrated on particular interests--for example, the Scandinavians on "humanitarian" aid; the Japanese on infrastructure projects, generally in East Asia; the French on their former colonies; the OPEC nations, with their new-found oil wealth, principally on other Islamic countries. The Soviet Union and, to some extent, China have focused what limited aid they provide on a few countries of strategic importance to them.

It is noteworthy that the Soviet Union has sought to avoid the recriminations of the LDCs by arguing that it has no obligation to help in the aftermath of colonialism. But this argument is less and less accepted by the developing countries who clearly note that development aid from the Communist countries is meager. Aid from the Soviet Union, China, and Eastern Europe amounts to approximately 3.0% of the total received by the developing countries. Soviet aid is declining, with Cuba and Vietnam receiving about 60% of the total. Eastern Europe aid, used mainly for commercial market penetration, goes almost entirely to the better-off LDCs. China's aid consists of long-term, interest-free loans concentrated in poor countries.

Most of the less developed countries look to the United States both for aid and for leadership among the developed countries. In many instances not only will we continue to be the primary donor, but we will have responsibility for working with various multilateral agencies and other donors to encourage the most efficient allocations of effort and resources.

The U.S. has played a major role in the creation and maintenance of multilateral assistance mechanisms adapted to virtually all of the LDCs. Our leadership and support for the multilateral development system--especially the international development lending institutions and the U.N. agencies--will continue to be of major importance to our relationships with other developed countries. Through these organizations the United States can provide assistance to countries where our interests are real but not strong enough to justify major bilateral programs, or where our interests are strong but conditions dictate the use of other than bilateral assistance mechanisms. Even in countries with major bilateral programs, the U.S. assistance effort must be closely coordinated with those of other donors.

The United States should move forward on LDC trade, investment, and commodity issues and increase assistance levels while improving effectiveness in order to maintain our leadership role in support of an expanding international economic system and a more stable international order, adequately address global human development problems, and exert a positive influence on other OECD and OPEC countries to expand their assistance efforts.

C. Diversity of Development Instruments

The U.S. has many tools with which to promote its objectives in developing countries. The full range includes:

-- trade, including commodity stabilization agreements and special arrangements to lower tariff and non-tariff barriers;

-- private capital flows;

-- technology transfers;

-- non-concessional financial assistance (Export-Import Bank credits);

-- IBRD and Regional Development Banks' hard windows with borrowing authority on the world's commercial markets;

-- concessional economic assistance, through both bilateral and multilateral channels (bilateral economic aid, Security Supporting Assistance, PL 480 food aid, and multilateral concessional assistance via the soft windows of the international banks and the United Nations development organizations);

-- concessional military assistance (MAP);

-- Foreign Military Sales (FMS).

Economic Growth and Trade

The most immediate way in which the United States and other industrialized countries can help the developing world is through the non-inflationary growth of our own economies. For example, expanding OECD economies by growth rates of 5% rather than 2% would increase the potential market for non-OPEC LDC export earnings by more than $2 billion a year. In addition, higher economic growth rates in the industrialized countries could provide the economic and political atmosphere needed to achieve less restrictive trade policies. The World Bank estimates that existing trade restrictions cost the LDCs as much as $20 billion per year.

In 1975, for instance, non-OPEC LDCs exports totaled approximately $108 billion, while their imports totaled approximately $155 billion. Official Development Assistance in 1975 to these countries from Development Assistance Committee (DAC) members and multilateral institutions came to approximately $12 billion. In fact, in recent years, LDC exports averaged almost

ten times official development assistance. However, as indicated below, for many of the poor LDCs, development assistance is an important source of resource transfers essential for their growth.

In the long run, policies stimulating expanded trade with the LDCs are crucial to their economic progress, even though for the foreseeable future more than half the imports of the developing countries will be manufactured products, while more than three-quarters of their exports will be primary commodities.

Given the importance of primary commodity exports in LDC export earnings, the stability of commodity prices and incomes will be important to the economic prospects of many Third World countries. A weighted index of 34 commodity prices, excluding oil, went up 8% in 1972, 52% in 1973, 51% in 1974, then down 35% in 1975, and back up again 28% in 1976. Economies that are heavily dependent on commodity earnings subject to such violent swings cannot rationally plan for development.

Private Capital Flows

Private capital flows, particularly from the banking system, will be an increasingly important source of finance for the developing countries. Publicized commercial bank loans to LDCs were $3.9 billion in 1972, but $12.7 billion in 1975. Private capital flows from Development Assistance Committee members to the LDCs increased from $8.6 billion in 1972 to $22 billion in 1975. Private U.S. capital flows to LDCs in 1975 were approximately three-quarters of one percent of our GNP. (Our Official Development Assistance was one-third of that amount.)

This heavy reliance on commercial borrowing has accentuated the debt problems of certain LDCs. The countries most seriously affected are often the economically dynamic--not the poorest--which have maintained high growth rates in the face of higher fuel bills and other import costs by increasing their commercial borrowing abroad. Many of these countries may need balance of payments relief, from sources such as the new IMF Supplementary Financing Facility ("Witteveen Facility").

Technology Transfer

Access to present and future scientific and technological capability will be important to the pace and pattern of development. The nature and terms of such access are critical, and the issue has been under intense discussion in the OECD and in the United Nations with the developing countries insisting on mandatory transfers and access to patents; developed countries respond that, by and large, the technology is under private control. The possibilities for new modes for expanding technology transfer are receiving increased attention.

Foreign Economic Assistance

Foreign economic assistance, however, remains a fundamental means of fostering development. It is particularly important to those countries which, because of their low levels of national income, institutional and technical advancement, and relatively slow growth rates, are unlikely to attract much private capital flows. For countries with per capita income of less than $520 (one-third of the world population), ODA comprised a crucial 24% of total annual investment in 1974. Moreover, ODA represented 78% of their total net public and private flows. In contrast, for developing countries with per capita incomes above $520 (10% of the world population) total ODA was equal to only 5% of total investment and 33% of total public and private capital flows.

We now turn to the wide diversity of economic and political conditions that exist within the developing world. Such diversity holds major implications for the way in which we design our foreign assistance policy.

D. Diversity of LDCs and Implications for Assistance Policy

We sometimes tend to lump the countries of the developing world together. However, they are often as different from each other economically, politically, and culturally as they are from the United States. Moreover, some countries may be deemed more important to the United States than others because of their size, or strategic location, or as a source of critical raw materials. There are also United States interests in the developing world that are not readily associated with any particular countries; for example population control and environmental protection transcend specific country interests.

In designing a U.S. foreign assistance strategy, we can categorize developing countries in various ways according to different interests. For example, in assessing specific United States economic interests in the developing world, it is possible to formulate categories of LDCs of (1) "high" significance; (2) "medium" significance; and (3) "low" significance in meeting our economic interests. Such ranking could be based on both a general goal--maintaining the strength and stability of the international economic system--and several specific goals--maintaining U.S. access to low cost supplies of raw materials and promoting and protecting foreign investments. Countries with little immediate economic significance may have enormous economic potential; the longer the time horizon, the more difficult it becomes to predict which LDCs will become of major economic significance to the U.S.

A commonly used economic breakdown of developing countries uses per capita income as a basis to analyze the countries' needs and the most appropriate development tools. (See Appendix A for a detailed listing of developing countries based on per capita income.)

Rich Developing Countries. These are principally the oil exporting countries, e.g., Iran and Saudi Arabia, with high per capita incomes. They have very substantial foreign exchange earnings but their internal economies cannot yet be considered to be developed. They are particularly interested in tapping our science and technology to convert their vast new capital resources into long-term efficient industrial bases. They are moving toward fuller participation in the management of the international financial and monetary system. The rich developing countries can afford to pay the cost of any assistance they receive, and therefore concessional assistance is not appropriate for them. In fact, m any of them have joined the list of aid donors, and we should continue to encourage them in that role. In some cases, short-term commercial credit may be appropriate as a means of financing some of their purchases of technical services, military equipment, or other goods from the United States. In addition, they may require technical services or training from the United States or

from international agencies--especially to help them deal with remaining poverty and backwardness, we should continue to facilitate the provision of these services on a reimbursable basis.

Middle Income Developing Countries. These are developing countries with per capita income above $520 in 1975 prices, the cut-off for IDA eligibility. Most of these countries have made good development progress and should be able to achieve good rates of economic growth if they follow sound economic policies. Many middle income countries raise funds in the world's commercial markets, including use of the hard windows of the international development lending institutions. Such countries should be moving away from reliance on concessional assistance. Many of them, however, still have substantial portions of their population living in conditions of poverty. In come instances, it may be useful to continue to provide them with limited amounts of concessional assistance, although they should increasingly be expected to meet these needs with their own resources. The middle-income countries have a strong interest in improved trade relationships, lower tariff barriers, attracting foreign investment and expanded access to the technology of the developed countries.

Low Income Developing Countries. These are countries with per capita income below $520 a year. This group may be further subdivided by differentiating the least developed or poorest of them from those with "immediate potential" for growth. The low income and least developed countries remain the most important recipients of concessional assistance. Approximately thirty least developed countries identified by UNCTAD have per capita incomes averaging around $100, very little industrialization, and very high rates of illiteracy. For them grant financing is the most appropriate instrument so that debt servicing remains at viable levels.

The growth of the least developed of the low income countries will be delayed until they can further develop institutional and physical infrastructure. They will need both technical assistance to improve their capacity to use their resources efficiently and to alleviate the misery of the poorest segments of their populations, as well as capital assistance to build their basic infrastructure.

For the low income countries a little higher on the economic scale, concessional loans are satisfactory. Many countries in this low income group have potential for accelerated growth within the next decade via increasing levels of trade and are candidates for private capital flows. In the meantime, they will require substantial concessionary assistance. Their short-term future growth in many cases rests heavily on their ability to continue to attract concessional assistance and to carry out sound economic policies.

In each of these groups, our foreign assistance programs must be tailored to address specific needs and circumstances. No one foreign aid instrument or formula will apply universally to all LDCs.

E. New Development Strategy Emphasizing Growth with Equity/ Meeting Basic Human Needs

In the 1960's LDC development strategies and foreign assistance programs sought to maximize growth of output and assumed that the benefits of rapid GNP growth would "trickle down" to the poor in the form of more jobs, more food, and better services. Capital-intensive technology and investments were pursued despite the scarcity of capital and relative abundance of labor in most developing countries.

This approach had certain notable successes. GNP in the developing countries as a whole rose twice as fast as the industrialized countries during a comparable stage in their development. Average life expectancy in developing countries during 1950 to 1975 increased from about 35 years to 50 years, the level attained in western Europe only at the beginning of the 20th century. In education, during the same period, the number of pupils in primary schools in the LDCs tripled; the number of students at the secondary and high levels increased sixfold.

These overall gains, however, mask the fact that while some developing countries have achieved dramatic per capita GNP growth--even rates of over 7% a year over extended periods--many others have made little progress. These averages also conceal wide differences in the extent to which various groups within LDCs have benefited from development. In most less developed countries, the so-called "modern sector" of urban areas and large farms have been the major beneficiaries of growth. The urban and rural poor, however, whose numbers have been rapidly increasing and form the majority in most developing countries, have been left behind.

Despite economic development efforts, nearly 1 billion people--one-quarter of the world's population--live in extreme, degrading poverty. Although most of them live in the low income countries, substantial numbers also live in middle- and upper-income countries. For example, in the northeast region of Brazil, a middle-income country which has exhibited dramatic GNP growth, millions of people live on the edge of subsistence; their mortality rate is among the highest in the world--one out of seven dies before the age of one. And in the poor countries of Asia and Africa living standards of the poorest 20 to 40 percent of the people have not improved and in many cases have even fallen. For the world's poorest people, development assistance of the past two decades has <u>not</u> trickled down.

In response to this situation, developing countries and donors (including the World Bank, the U.N. system, and AID) have sought to promote <u>growth with equity</u>.

The emphasis of this new strategy has been on the large number of very poor people with low productivity, especially in the rural sector, and on directing investment toward activities which increases the productive capacity of the poor majority by increasing their access to resources and appropriate technology. The bad harvests in many parts of the world in the early 1970's placed great emphasis on the need to improve food production and distribution. In addition, programs were introduced to improve the poor people's access to health, family planning and education services. The U.S. Foreign Assistance Act since 1973 has mandated that the U.S. bilateral assistance programs concentrate assistance in these areas.

The basic-human-needs-oriented development strategy represents a further evolution of the "growth with equity" approach, by combining growth, labor-intensive, and redistributive features with an explicit concern for the provision of goods and services essential for meeting the basic needs of the poor.

An acceleration of economic growth is an essential precondition for the achievement of basic needs objectives, especially in low income countries. But it requires a kind of growth that focuses more heavily on the production and supply of goods and services to meet basic needs than on goods and services for the relatively high income modern sector. Growth that makes fuller use of abundant human resources and provides greater incomes to the poor can, at the same time, increase effective demand for basic goods and services provided through the market.

Concentrating on small farmers to help them raise more food is a good example of growth with equity which is geared to meeting the needs of poor people. The supply of food essential for basic human needs is increased at the same time that employment and income of the poor is also increased. Furthermore, as indicated in the National Academy of Sciences' "World Food and Nutrition Study (1977), "cencentration on small farmers for increasing food production is an efficient use of resources in the developing countries because of the very significant scope for increasing their yields at relatively low costs.

There are also some concerns expressed that investments in education, health, and family planning are long on equity but short on growth. But people worn down by chronic malnutrition, pregnancy, and disease can neither work nor learn effectively. Thus, the provision of adequate food, minimal health services, and elementary education can make poor people more productive. Such investments in "human capital" can yield long-run returns.

F. Effectiveness of BHN in Promoting U.S. Foreign Policy Objectives

The LDCs establish their own national priorities. Therefore, the effectiveness of our assistance strategy depends upon the willingness of the recipient government to undertake the necessary policy reforms and domestic resource commitments.

It is not clear how acceptable a Basic Human Needs strategy will be in many LDCs. Some may see it as an anti-growth strategy, while others may see it as interference in their domestic affairs; certainly it could involve internal political and economic dislocations. The pursuit of a BHN strategy requires substantial resources over a long period of time. Therefore, a developing country, particularly a poor country, would need sustained external assistance in order to successfully implement a BHN development strategy.

The support of LDC growth strategies which concentrate on meeting basic human needs and equitable growth can promote longer-term U.S. economic, political, security, and humanitarian interests as follows:

(1) By giving high priority to food production and provision of adequate health services, including family planning, BHN helps in addressing critical global problems such as food availability and fertility reduction.

(2) By improving the utilization of resources through emphasis on employment, BHN can also imply faster growth for given levels of investment, as in the cases of Taiwan and Korea: faster growth means that countries will more rapidly become important trading partners for the U.S.

(3) By focusing on the poor majority, BHN is directly responsive to our humanitarian concerns; where poverty is severe and widespread, enhancement of economic rights may be a necessary condition for the realization of political and civil aspects of human rights.

(4) By urging greater participation by the poor majority in the process and benefits of development, BHN enhances the possibility for progressive non-revolutionary changes within a country and makes for a more stable world order.

There is no hard and fast definition of a basic human needs strategy. There is general agreement that BHN is not a welfare program but a strategy for development which aims at increasing the production and income of the poor majority thus giving them greater access to the basic amenities, such as food and nutrition, basic health, family planning and education services.

The poor majority are to contribute productive work, benefit from the growth of the economy, and have greater participation in the decisions affecting their lives.

The support of BHN strategies in LDCs should be a primary focus of U.S. development assistance programs. Part III, Issues and Options, discusses three variations within the BHN strategy which the U.S. could pursue.

G. Security Supporting Assistance

Security Supporting Assistance (SSA) is bilateral economic assistance--including cash grants, direct budget support and commodity imports financing--designed especially for meeting short term political or security needs. SSA was begun in the days of the cold war when economic aid was provided to bolster allies' economies so that they could support the defense demands of their mutual security alliances with the United States. More recently, supporting assistance funds were used in support of our war effort in Indochina. Today 90% of this category of support is devoted to our diplomacy in the Middle East and to some extent in Southern Africa. We are currently reviewing the relationship between Security Supporting Assistance and our various agreements with other countries for overseas bases.

Congress has mandated that Supporting Assistance should be programmed in such a way that it brings the maximum amount of benefit to the development process in the recipient country and conforms to the extent possible to the "New Directions" guidelines. In evaluating proposed supporting assistance requirements, the following criteria, among others, could be used:

-- the presence of verifiable economic need;

-- the availability of a system to measure achievement;

-- the absorptive capacity of the recipient.

H. Military Assistance to LDCs

Developing countries characteristically and understandably devote a sizeable amount of their resources to the establishment of military capability to deal with local or regional threats. The question of the impact of this military cost on economic and social development--whether it is positive or negative--differs with each country situation. In some countries, the military program is effectively used to teach basic skills in reading and writing, mechanics, management and so forth which later contribute to civilian agricultural and industrial growth. In other situations, when a heavier proportion of foreign exchange or of the national budget goes to the military establishment, or when management or technical skills that should be devoted to economic growth are unnecessarily diverted to defense, the military effort can be a detriment to development; in fact, it can also impede the security it is designed to enhance, for postponement of improved living conditions can result in internal instability. To support development goals, defense budgets of the LDCs should receive no more than minimum amounts needed for realistic defense requirements.

Accordingly, the President's new conventional arms transfer policy announced on May 19, 1977, requires a reduction in the dollar volume of new commitments under the Foreign Military Sales (FMS) and Military Assistance (MAP) programs for weapons and weapons-related items beginning in FY 1978. The new policy requires assessment of the economic impact of arms transfers to LDCs receiving United States economic assistance. Under Section 620(s) of the Foreign Assistance Act, the President must consider the amount a recipient spends on defense before he approves economic aid loans or grants or PL 480 sales.

We believe closer coordination between United States economic and military assistance planning is desirable. A realistic and prudent distribution of limited LDC domestic resources between the demands of development and the claims of security will stretch the development dollar and achieve even greater security.

I. Conclusion

Part I has examined our interests in the developing world and presented a comprehensive and flexible foreign assistance strategy which will advance these interests by supporting LDCs economic growth and development.

It indicates that:

-- The United States has a crucial and increasing stake in dealing with a number of global economic and political problems--including food, population growth, energy, raw material access, expansion of international trade and investment, nuclear proliferation--which virtually affect our international position and our domestic well-being.

-- The developing countries are increasingly important in effectively addressing these issues and are seeking to accelerate their development and increase their participation in the international economic and political arenas.

-- The developing world must not be seen as a monolithic bloc but rather as individual countries which can be grouped according to their stages of development and their interests, both long and short-term, to the United States. Our response to this diversity must be both comprehensive and flexible.

-- Liberalized trade, improved access to capital markets, greater foreign investment, and the hard loan financing of the international institutions are the most important sources of resources for the middle-income developing countries, although there may be a role for limited amounts of concessional aid in helping the poorer people in these countries participate more fully in development. The rich LDCs should be encouraged to participate more actively as donors.

-- Increased concessional assistance, in support of LDC growth strategies focusing principally on equity and meeting basic human needs would meet an urgent need of the poor countries, given their limited financial capital and general underdevelopment.

-- Meeting the challenge of underdevelopment and poverty in the poor countries, with hundreds of millions of people living at subsistence levels, is basic to an expanding international economy and, in the view of some, a more stable international order.

-- A basic human needs strategy appears to be effective for enhancing the ability of the majority of the LDC populations to participate in and benefit from economic and political development and for promoting longer-term U.S. economic, political, and humanitarian interests.

-- The United States must place greater emphasis on both improving the effectiveness and efficiency of its bilateral and multilateral development programs, and persuading development countries to undertake policy changes and mobilize domestic resources to meet the basic needs of their people.

-- The United States must seek greater coordination and burden-sharing in international assistance efforts--including both the international financial institutions and the United Nations--and continue to provide leadership to encourage other DAC and OPEC donors to increase and improve their assistance.

-- The United States must continue its military and supporting security assistance programs, which are vital for the maintenance of global and regional stability. These security assistance efforts must not detract from or reduce the level of our commitment to our development assistance, which is no less vital to U.S. interests.

We now present, in Part II, a description and analysis of our foreign assistance instruments and their comparative effectiveness in achieving U.S. objectives.

APPENDIX A
PART I

Countries Above $520 Per Capita Income

Country	GNP Per Capita* (1974 dollars) 1950	1975
LATIN AMERICA		
Argentina	907	1464
Barbados	402	1155
Belize	424	700
Brazil	373	927
Chile	596	700
Colombia	308	510**
Costa Rica	446	834
Dominican Republic	324	661
Ecuador	276	603
Guatemala	345	602
Guyana	383	512**
Jamaica	376	1186
Mexico	562	1092
Netherlands Ant.	1914	1595
Nicaragua	313	661
Panama	484	977
Paraguay	354	525
Peru	403	748
Surinam	-	1187
Trinadad & Tobago	713	1746
Uruguay	978	1220
Venezuela	992	2045
AFRICA		
Algeria	484	718
Angola	226	623
Gabon	-	2061
Libyan Arab Rep.	786	4676
Mauritius	575	533
Tunisia	-	695

* Twenty-Five Years of Economic Development, 1950 -- 1975
David Morawecz, IBRD, Preliminary Paper, April 1977

** Now above $520 per capita.

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PART I

	GNP Per Capita* (1974 dollars) 1950	1975
EAST ASIA		
China (Taiwan)	224	817
Fiji	571	842
Hong Kong	470	1684
Korea	146	604**
Malaysia	350	665
Singapore	-	2307
MIDDLE EAST		
Bahrain	-	2244
Iran	384	1321
Iraq	283	1180
Israel	1090	3287
Kuwqit	19160	10590
Lebanon	690	-
Oamn	-	1903
Qatar	-	7655
Saudia Arabia	-	2767
Syrian Arab Rep.	283	604
United Arab Emirates	-	9635
Yemen Arab Republic	-	-

* Twenty-Five Years of Economic Development, 1950 -- 1975
David Morawecz, IBRD, Preliminary Paper, April 1977
** Now above $520 per capita.

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Countries Below $520 Per Capita Income

Country	GNP Per Capita* (1974 dollars) 1950	1975
SOUTH ASIA		
Afghanistan	89	119
Bangladesh	-	103
Burma	57	100
India	95	139
Nepal	88	102
Pakistan	-	131
Sri Lanka	90	134
EAST ASIA		
Brit. Solomon Is.	-	307
Khmer Republic	112	(80)
Indonesia	103	169
Lao, People's Dem. Rep.	62	(68)
Papua New Guinea	229	412
Philippines	168	340
Vietnam	143	163
Thailand	132	319
MIDDLE EAST		
Jordan	186	423
Yemen Peop. Dem. Rep.	-	224
LATIN AMERICA		
Bolivia	244	290
Haiti	-	163
Honduran	272	322
El Salvador	263	418
AFRICA		
Benin, People's Rep.	-	125
Botswana	141	300
Burundi	117	91
Cameroon	133	246
Central African Empire	202	212

* Twenty-Five Years of Economic Development, 1950 -- 1975
David Morawecz, IBRD, Preliminary Paper, April 1977.

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APPENDIX A
PART I

Countries Below $520 Per Capita Income

Country	GNP Per Capita* (1974 dollars) 1950	1975
AFRICA		
Chad	-	111
Congo, People's Rep. of	303	460
Egypt	203	286
Ethiopia	58	94
Gambia, The	99	178
Ghana	354	427
Guinea	-	118
Ivory Coast	283	460
Kenya	129	200
Lesotho	-	161
Liberia	-	377
Madagascar	195	180
Malawi	68	137
Mali	67	87
Mauritania	200	288
Morocco	353	435
Mozambique	177	284
Niger	-	122
Nigeria	150	287
Rhodesia	-	499
Rwanda	119	81
Senegal	238	341
Sierra Leone	-	181
Somalia	37	92
Sudan	118	267
Swaziland	79	434
Tanzania	84	160
Togo	164	245
Uganda	195	229
Upper Volta	99	87
Zaire	94	139
Zambia	310	495

* Twenty-Five Years of Economic Development, 1950 -- 1975
David Morawetz, IBRD, Preliminary Paper, April 1977.

APPENDIX B
PART I

Key Elements of a BHN Development Strategy

1. The developing country must design programs and policies which assure that the supply of goods and services consumed by the poor is adequate to satisfy basic needs for productive subsistence. This includes:

-- goods produced by the private sector, such as food;

-- services supplied by the public sector, such as health and education.

2. These programs and policies must be designed so that the poor have access to the increased supply of these goods and services.

3. This requires programs and policies which increase the amount of income of the poor. This can be done through increased or more productive employment or transfers of income. The latter can be accomplished either through internal redistribution or transfers from abroad, and could be in cash or in kind (PL 480 Title II).

4. Generally, the emphasis has to be on increased and more productive employment rather than transfers. Otherwise the policies would tend to compromise overall growth of both output and income.

5. Increased and more productive employment can be achieved through policies which--promote the fuller utilization of labor,--enhance the access of the poor to other resources, i.e., land and capital,--increase investment in human resources.

6. Increased incomes and increased supplies are equally basic to the success of the strategy. Increased income without increased supply of goods and services will only result in increased scarcity and higher prices of these goods and services. Increased supply without increased income in the hands of the poor, however, is meaningless; this concern with the supply side distinguishes BHN from other strategies which also aim at promoting growth with equity.

7. The balance between policies which promote income growth and those which expand supply is not easy to achieve. For this reason it is important to promote policies which enhance employment of the poor in the

production of the things they consume. For example, policies which increase food production by small farmers tend to simultaneously increase both the supply of critical goods consumed by the poor and their income.

8. The precise combination of goods and services that satisfies basic human needs of the poor would vary depending on a country's stage of development, cultural characteristics and other structural elements. Within this range of goods and services there are a few elements--usually identified with provision of adequate nutrition, health, education, potable water and shelter--which could be viewed as the core for productive subsistence.

9. Quantitative norms for minimum levels of availability of these goods and services can be established which may have wide applicability among developing countries, after proper allowance for climatological conditions, tradition, etc. These norms could be used to measure progress in reaching BHN objectives.

10. The proper balance between different kinds of goods and services consumed by the poor must be decided by individual developing countries. However, the adoption of a basic human needs strategy by a particular developing country does entail that it provide for increased supply of those core elements over time.

PART II: DESCRIPTION AND EVALUATION OF FOREIGN ASSISTANCE PROGRAMS

The purpose of Part II is to evaluate the effectiveness of existing U.S. bilateral and multilateral assistance programs in meeting the U.S. objectives discussed in Part I, recognizing that no individual program can be expected to meet--or is designed to meet--all objectives equally well.

The first section describes current foreign assistance programs. These include bilateral development assistance; security supporting assistance; other programs administered by the Agency for International Development (reimbursable technical assistance, international disaster assistance); Public Law 480; international development lending institutions; and programs of United Nations agencies.

The second section summarizes the assessment of the effectiveness of these foreign assistance programs in terms of selected performance criteria.

Appendix A reviews programs or institutions which are important for LDC development but not directly a part of our foreign assistance programs. These include the International Monetary Fund (IMF), the Export-Import Bank, the Peace Corps, military assistance, and private and voluntary organizations (PVOs).

The composition of U.S. foreign assistance funding for select years from 1966 to the present is set forth in the following table.

TABLE IV

U.S. FOREIGN ASSISTANCE, 1966 - 1978
($ millions, by fiscal year)

	1966	1970	1974	1975	1976	TQ	1977	1978
A. Economic Assistance	4,784	3,676	3,906	4,908	4,538	1,525	5,981	7,331 i/
Bilateral:	(4,292)	(3,083)	(2,945)	(3,985)	(3,661)	(1,436)	(4,596)	(5,193)
Development Assistance	1,634	1,261	1,022	1,154	1,021	330	1,231	1,283
Security Supporting Assistance a/	905	503	640	1,226	1,123	890	1,788	2,220
Food Aid (PL 480)	1,558	1,142	973	1,328	1,287 f/	156 g/	1,347	1,460
Other b/	195	177	310	277	230	60	230 e/	230 e/
Multilateral:	(492)	(593)	(961)	(923)	(731)	(89)	(1,385)	(2,138)
Contributions to IDLIs	354	480	814	784	599	-	1,141 d/	1,898
Int'l Bank for Reconst. & Dev.	-	-	-	-	-	-	-	380
Inter-American Development Bank	250	300	282	348	225	-	586	480
Int'l Development Assoc.	104	160	469	386	320	-	430	800
Asian Development Bank	-	20	62	50	146	-	115	190
African Development Bank Fund	-	-	-	-	5	-	10	10
Int'l Finance Corporation	-	-	-	-	-	-	-	38
Contributions to Int'l Org's.	138	113	147	139	132	89	244	240
B. Military Assistance	2,205	3,111	5,073	2,331	2,490	673	2,390	915
MAP Grants	975	385	789	583	234	78	340 d/	209
Credit Sales (FMS)	317	70	1,396	750	2,205	594	2,022	676
Service Funded (MASF) Grants	695	2,094	1,257	851	-	-	-	
Other c/	218	562	1,631	147	51	1	28	30
C. Total U.S. Assistance	6,989	6,787	8,979	7,239	7,028	2,198	8,371	8,246

a/ Includes Indochina Postwar Reconstruction, Middle East Special Requirements Fund, Contingency Fund, etc.
b/ Primarily Peace Corps, Inter-American Foundation, Narcotics Control, Darien Gap, Migration & Refugees, etc.
c/ Primarily transfers from excess stocks.
d/ Includes supplemental appropriation.
e/ Estimated.
f/ Title I includes T.Q.; Title II includes Transportation.
g/ Includes Title II Transportation.
h/ Includes Emergency Reserve and estimated Title II Transportation.
i/ Includes Disaster Assistance, American Schools and Hospitals Abroad, Lebanon Relief and Rehabilitation, Operating Expenses, Contingency Fund and other minor programs.

A. Description of Foreign Assistance Programs

Bilateral Development Assistance (BDA)

BDA is programmed at $1.2 billion in FY 1977, and accounts for about a third of U.S. bilateral assistance and somewhat less than 20% of total U.S. economic assistance programs. Estimated BDA expenditures in recent years were 8% of ODA flows to developing countries and 2.8% of total flows to these countries. Although in many cases BDA accounts for only a small portion of total flows to a recipient country, it can serve as a catalytic agent for development and when combined with PL 480 and multilateral assistance, provides substantial resource transfers.

The Foreign Assistance Act of 1973 mandated that AID direct its development assistance efforts to helping the poor majority in developing countries. As a result of this "New Directions" mandate, funds have been committed increasingly in functional areas particularly important to broad-based participatory development, with heavy emphasis on agriculture and rural development, population, health and education and human resources. Between FY 1974 and FY 1977 the funding committed for agriculture and rural development has increased from $275 million to $519 million, which accounts for about half of bilateral development assistance. For FY 1977 population and health activities are programmed at approximately $225 million and education at approximately $100 million. Finally, some $60 million is programmed for other important areas such as energy, science and technology (emphasizing appropriate technologies), environment and some urban development. The Housing Investment Guarantee Program averages about $120 million per year for shelter programs in largely middle-income countries.

The program provides development assistance to approximately 50 countries, including 27 countries in Africa, 7 countries in Asia, 4 countries in the Near East and 14 countries in Latin America. About half of AID's funding is concentrated in the twelve largest country programs. About 85% of total program commitments are for low-income countries (defined as countries with a per capita GNP below $520 in 1975 prices) and about 60% of total program commitments are for countries with a per capita GNP below $200 in FY 1978.

Security Supporting Assistance (SSA)

SSA is a flexible form of bilateral economic aid provided to a limited number of countries in which the U.S. has a direct interest in supporting or promoting political or economic stability. With an FY 1978 budget of $1.9 billion, SSA is the largest U.S. bilateral economic assistance program, accounting for over 40% of U.S. bilateral economic aid and about 25% of total U.S. economic assistance. Over 90% of current SSA funding is directed

to countries in the Middle East, but in FY 1978 several nations in Southern Africa (Zaire, Zambia, Lesotho, Swaziland, and Botswana) will also become recipients. By statute, SSA is limited to 12 countries, unless Congress makes an exception as it did in the case of Southern Africa.

U.S. national interests, as determined by the President and the Secretary of State, ultimately determine which countries should receive SSA, as well as the amount each should receive.

Supporting assistance funds can be used to aid recipients in a number of ways, including cash grants, budget support, commodity imports, large and small scale capital projects, as well as technical assistance.

Other Programs Administered by AID

Reimbursable Technical Assistance. The Foreign Assistance Act authorizes any U.S. Government agency to furnish services and commodities to friendly countries, international organizations and certain non-voluntary relief agencies on a reimbursable or deferred payment basis. Reimbursable programs are used to stimulate sales of services or commodities related to the economic development of friendly nations, and in some cases to facilitate access to natural resources of interest to the U.S.

Three categories of countries are the target of these programs: (1) countries in which AID programs are being phased out; (2) AID graduate countries; and (3) non-AID developing countries, particularly the oil nations. Thus, this program is utilized by countries which need development inputs, primarily related to technology transfer, but are able to finance these inputs themselves.

Reimbursable technical assistance, in addition, helps the U.S. economy through the expansion of sales of technical services, technology and related services.

International Disaster Assistance. Disaster assistance is well-established as a channel through which Americans, both individuals and groups, can direct their traditional humanitarian concerns. It is also an activity through which the USG can reflect its special concern for victims of disasters, sudden or longer term. It is part and parcel of our basic human needs thrust. An estimated $44 million in disaster assistance funding was committed by the U.S. in FY 1977 to assist the victims of man-made and natural disasters in a broad range of countries.

Public Law 480

PL 480 applies the strength of the U.S. agriculture sector to the problems of the developing countries. Combined PL 480 programs of $1.4 billion account for about one-third of U.S. bilateral assistance, or about total 20% of the foreign assistance budget. Title I is a concessional food sales program programmed at $800 million for FY 1978. Title II is a grant program, largely for feeding and food for work programs, which is currently funded at $600 million per year. Title I and II combined will provide about 6 million tons of food aid.

PL 480 legislation, enacted in 1954, involved multiple objectives which in practice have often been in conflict: economic development, the need to dispose of U.S. commodity surpluses, the desire to develop overseas markets, and the promotion of political military objectives through balance of payments support.

The emphasis among objectives of the program has shifted over time, however, and new priority has been given to the use of food assistance for humanitarian and especially developmental purposes. This change was reflected in the 1974 legislation, in which Congress directed that 75% of Title I be provided to countries with a per capita GNP below $300 (this will move to $550 million next year) and more clearly in the development emphasis of the 1977 legislation; Congress also set a 1.6 million minimum tonnage level for the Title II program. The shift was further emphasized by the Administration's August announcement on agriculture policy, which included a domestic and international reserves system. Congress has also enacted a new Title III program, which allows a portion of repayments under Title I agreements to be used for development purposes. In FY 1978, authority is provided to use up to 5% of Title I, or $40 million, for this purpose; this increases to 10% and 15% in FY 1979 and FY 1980, respectively.

Title I. Title I provides the Executive Branch with considerable flexibility. Authorizing legislation sets a limit which exceeds the amount we are likely to require, and appropriations are made to the Commodity Credit Corporation (CCC). Illustrative country allocations are sent to Congress in the AID Congressional presentation.

Title I has in many cases provided critical support to developing countries needing either commodities or foreign exchange. In other cases, however, it has apparently hindered development by encouraging governments to maintain artifically low food prices, thereby discouraging increased production.

Title II. Under Title II of PL 480, grants of food, including ocean transportation costs, are made to U.S. voluntary agencies, the U.N./FAO-sponsored World Food Program and other multilateral organizations, and

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friendly governments, for distribution to the needy and for emergencies and disaster relief. About half of the food is distributed by U.S. voluntary agencies which also receive large contributions from the public. Host governments must agree to duty-free entry of Title II food and exemption of taxes. In most cases, governments also finance the internal costs of the program, including storage and distribution.

Title III. The new PL 480 legislation provides for a Title III under PL 480, to focus more sharply on development assistance. Through multi-year programming, it should be possible to engage in more meaningful negotiations with developing countries on how PL 480 commodities can support specific longer-term development objectives.

International Development Lending Institutions

The international development lending institutions (IDLIs) include the World Bank group--the International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), and the International Finance Corporation (IFC)--and the regional development banks--the Inter-American Development Bank (IDB), Asian Development Bank (ADB), and the African Development Fund (AFDF). In FY 1978 they were budgeted for $2.6 billion or approximately 35% of U.S. foreign aid funds, more than double their FY 1977 share. With total commitments from all donors of $9 billion in 1976, they provide a higher volume of assistance aimed at achieving economic growth and long term economic co-operation and stability than any other individual program.

Fifty percent of cumulative combined lending of the hard windows (the IBRD, IDB, and ADB) goes into public utilities and transportation. In the soft windows--the IDA, the FSO (Fund for Special Operations of the IDB), and the AFDF--agriculture has received top priority, generally receiving about 30% of the loans, with transportation running second at around 20% of the combined totals. The soft windows' greater emphasis upon the agriculture sector is essentially a reflection of the fact that they are supported by donor grants, whereas the hard windows depend heavily on capital markets for operating funds and must show a safe rate of return. It also reflects an increasing recognition of agriculture's important role in LDC economic growth.

Two recent trends have placed more emphasis on the IDLIs roles in reaching the poorer sectors of the population. First, each bank has become stronger financially as the position of its hard windows in capital markets has become more secure, and the soft windows have received increasing amounts of donor resources. Second, there is increased interest in addressing the socio-economic problems affecting the poorest segments of society. With a sounder financial structure, and a solid and growing portfolio of "bankable" projects, the hard windows of IDLIs have begun to become more

aggressive in attacking the "core" problems of human poverty. For example, the IBRD has been moving some funds away from major power and roads projects toward agriculture and water supply. The IDB and ADB have joined in this shift of emphasis.

U.N. Family of Development Institutions

Two major groups of institutions are responsible for virtually all of the humanitarian and development assistance programs carried out under U.N. auspices: (1) the U.N. Specialized Agencies which have relationships with the United Nations but are largely autonomous, and operate essentially on the basis of assessed budgets; and (2) the United Nations Development Program (UNDP) and special programs which operate on the basis of voluntary contributions.

The specialized agencies, e.g., World Health Organization (WHO) and International Labor Office (ILO), are used to fund specific activities and, in varying degrees, technical assistance programs. They serve also as executing agents for development programs financed by other U.N. bodies, most prominently the UNDP.

While the Specialized Agencies address specific areas such as food (FAO), health (WHO), education (UNESCO), refugees (UNHCR), Labor (ILO), telecommunications (ITU) and nuclear power (IAEA), other programs seek a broader perspective in terms of the whole range of country-level development problems. These programs are funded through voluntary contribution for special programs and technical assistance activities.

Of the voluntarily funded organizations, the UNDP is the largest. It is the primary channel for international technical cooperation consisting of training, institution building, and feasibility surveys. The U.S. contribution to the UNDP in FY 1977 is $100 million, or roughly 18% of its total resources; $130 million is proposed for FY 1978. Of the proposed U.S. total voluntary contributions to all international organizations and programs in FY 1978 of $240 million, the UNDP's is by far the largest. In addition to these voluntary contributions, the U.S. contributes $354 million (25% of the total) as assessed contributions to "overhead" expenses of the U.N. and its specialized agencies.

Other major voluntarily funded organizations include the following.

International Fund for Agricultural Development. IFAD is a new U.N. specialized agency. It will have an initial contribution of $1 billion and will provide concessional assistance fo agricultural development projects, primarily in low income countries, in close coordination with other international financial institutions. Ratification of IFAD's articles should

take place soon and the first meeting of its Board of Governors is scheduled to take place this December.

World Food Program. The WFP, a multilateral food aid effort, concentrates its activities on child nutrition and feeding programs, food for work programs designed to mobilize unemployed workers, and emergency food relief. Commitments over the past several years have been $300 million annually.

United Nations Relief and Works Agency. This agency provides education, health care, and feeding programs for Pakistinian refugees in the Middle East. Its budget in 1977 was $140 million. The proposed U.S. contribution for FY 1978 is $52 million.

United Nations Children's Fund. UNICEF concentrates on long-term development efforts to help children and their mothers in such areas as nutrition, child and maternal health care and family planning, feeding programs and education. The U.S. contribution in FY 1977 is $20 million.

U.N. Population Activities Fund. This fund conducts studies, research, and provides assistance to countries in the area of population. The U.S. contribution in FY 1977 is almost $29 million.

The U.N. system has been undergoing rather drastic changes in orientation and focus. As the organization has grown in size over the last thirty years, and more developing countries have participated, activities have shifted more towards development issues and problems. The specialized agencies are moving toward more technical assistance activities financed under regular budgets.

The system has also dealt with political issues in economic fora. These issues have also arisen in the conferences and meetings of U.N. specialized agencies.

B. Evaluation of Program Potential and Performance Capabilities

In assessing the effectiveness of foreign assistance instruments, it is necessary to consider a number of specific program features which affect their potential ability to meet a range of U.S. objectives in a variety of circumstances and countries. Those features are: leverage and conditionality, catalytic role, terms, flexibility for innovation, managerial efficiency, predictability, potential for expansion, and domestic political appeal. This section sets forth the broad conclusions and provides a summary evaluation of the "comparative advantage" of each of the major assistance programs.

The general conclusions are as follows:

1. Existing institutions have shown considerable flexibility in meeting changing objectives. Their effectiveness can be increased by improved management, better focus, and shifting relative emphases.

2. Our economic assistance effort has a multiplicity of goals and a variety of programs are needed to achieve them. Each program has strengths and weaknesses in addressing different goals in specific countries or groups of countries.

3. Each program meets several goals, and changes in the size or focus of the program could change their relative strengths. At present, however, the comparative advantage of bilateral development assistance, soft lending by international development lending institutions, and U.N. programs is in meeting our developmental/humanitarian goals; the comparative advantage of hard lending by international development lending institutions lies in meeting our developmental/economic goals, and that of security supporting assistance is in meeting selected national security goals.

4. The key to LDCs' success in achieving growth with equity lies with their domestic policies and actions. Aid cannot substitute for appropriate host government policies, but it may be able to influence these policies, and can provide a critical margin of resources needed to support them.

5. Among the most significant steps which could be undertaken to increase aid effectiveness are: (a) concentrating bilateral development assistance on countries which are willing to adopt appropriate policies conducive to equitable growth, (b) influencing domestic LDC development policies by use of leverage to affect sector and/or macro-economic policies, and (c) innovative programming to demonstrate new ideas and continuing dialogue with LDC officials and technicians to influence their acceptance of program and policy changes. Based on their present relative effectiveness, the multilateral program should emphasize (b), and the bilateral program should

emphasize (c). Influencing LDC policy and resource commitments can be best achieved through increased bilateral-multilateral coordination in consultative groups and regional arrangements such as the Club du Sahel.

Bilateral Development Assistance (BDA)

Our bilateral aid program is most immediately responsible to Presidential decision and most visibly representative of our national purpose and values. It permits concentration on geographic and functional areas (food and nutrition, family planning, etc.) important to U.S. national interests.

BDA's comparative advantage lies in its ability to (1) undertake programs which meet our long-term developmental and humanitarian concerns through stressing the equity aspects of growth, (2) be relatively flexible in supporting countries whose policies promote growth and equity, (3) to influence LDC policies through innovative programming and continuing contacts at the sector and project level, and (4) to provide a channel for U.S. expertise. BDA can mount innovative programs drawing on the depth of U.S. technical expertise in the public and private sectors, including private and voluntary organizations (PVOs) and U.S. universities. These can lead, as in the fields of nutrition, family planning and health, to new policies and perceptions on the part of developing countries and other donor agencies, both multilateral and bilateral.

BDA's current orientation, concessional terms and public support imply a continuation of efforts along the lines of the New Directions, focused on meeting the basic needs of the poor, but including institution building and infrastructure development related specifically to the achievement of basic human needs objectives. This would permit a focus on both low and middle income LDCs. Because of its small size relative to other resource flows to the high-income LDCs and the ability of the latter to assume harder terms, BDA's potential usefulness for meeting U.S. objectives with respect to high-income LDCs is low. (Reimbursable technical assistance offers a possible aid-type bilateral link to these countries.)

Assistance programming in accordance with the New Directions was constrained in the past by a number of factors, including the degree of LDC commitment to more equitable growth, the increased complexities of programs involving large numbers of the rural and urban poor, the need for small-scale experimentation prior to launching larger-scale programs, and the need to adopt more efficient management and operational procedures for a new set of program considerations.

Part III examines issues relating to BDA: sector concentration, country mix, and allocation criteria. In addition Part III contains options for the improvement of management and operational efficiency.

Security Supporting Assistance (SSA)

SSA addresses political and security interests of the U.S. and offers great flexibility in meeting U.S. foreign policy needs. SSA can be used to meet a wide range of goals through cash grants, budget support, commodity imports, capital infrastructure, etc.

Congress recognizes and usually provides financing for SSA programs because it is the most effective program for promoting the economic stability of friendly governments or enhancing regional stability in situations which directly or indirectly threaten U.S. security interests.

However, there is increasing pressure to get "double duty" from SSA dollars by utilizing these funds to help address the recipients' longer-term development problems, including a focus on basic human needs, especially for large continuing programs (e.g., Egypt).

Public Law 480 (PL 480)

PL 480's potential as a development tool has not been fully realized in the past. To do this will require closer programming with AID resources, consistent application of self-help conditions, and reliable commodity availabilities for the program as a whole. We should renew our attempt to broaden Section 401 to include development as a priority claimant for U.S. food supplies; recent agriculture policy announcements are an important step in this direction.

We must continue to identify discrete development purposes for PL 480 Title I, devoting the bulk of the program to development objectives. Title III offers additional new opportunities through multi-year programming, although the extent to which this new tool should and can be used effectively remains to be determined. Self-help conditions should be realistic and enforced. Penalties, including termination, should be considered for lack of compliance in the absence of overriding humanitarian or political considerations.

Title I represents the only form of bilateral quick-disbursing assistance for political/balance of payments support outside SSA, however, and this purpose should be retained for some portion of the program. Wherever possible, however, this should be programmed in connection with a program of economic reforms and/or linked to development activities.

Title II is an important means of serving our humanitarian objectives although its developmental impact is in many cases uncertain.

Part III examines the PL 480 issues on the balance between Titles I and II, the priority of Title II, and the appropriate emphasis on domestic objectives.

International Development Lending Institutions (IDLIs)

The IDLIs (including the World Bank and regional development banks, but excluding the IMF) are relatively more effective in providing a) leverage for improved LDC macro-economic policies; b) burden sharing of funding; c) support for infrastructure and industrial projects and d) leadership in coordinating multi-donor assistance. They provide an effective "aid" instrument for high- and middle-income countries which increases their ability to absorb additional funds.

Within the scope of U.S. developmental objectives, the IDLIs can and do play a variety of roles in an effective manner. They support growth, encourage equity considerations and can serve an adjustment function. They also serve U.S. regional and global economic goals.

The banks have the flexibility to shift their emphasis between objectives. To the extent that the U.S. has influence in each bank, the U.S. can attempt to move them in one direction or another to meet our objectives more effectively. It must be recognized, however, that the multilateral character of the institutions involve limitations on use of the banks to meet our policy goals.

One issue which needs to be resolved is the relative effectiveness of the World Bank vis-a-vis the regional banks and consequently what their relative roles should be in the U.S. development strategy. Another issue concerns the appropriate balance between hard and soft lending in the IDLIs. These issues are discussed in Part III.

U.N. Programs

Financial and technical assistance provided through the U.N. system meets a variety of U.S. development objectives, although there are also political returns. The majority of the programs are focused on meeting humanitarian needs and providing technical assistance which contribute to economic growth. Some programs carry out activities that are more easily handled multilaterally because of political constraints. In a broad sense, because of a lack of weighted voting, our leverage in U.N. programs is limited. As is the case with the parent body, the U.N. development activities tend to be sensitive to the views of their LDC constituents who outnumber the developed countries.

While the U.N. system is extremely diverse, some organizations have proven more effective than others. The UNDP, UNICEF, and WHO are among these. As with other multilateral programs, but particularly with the U.N. programs, there is a trade off between the U.S.'s ability to extend control and influence and the benefits a multilateral program offers, e.g., limiting political sensitivities, and performing a catalytic role.

Part III examines the extent to which the U.S. should strengthen the centralized programming and financing role of the UNDP.

APPENDIX A
Part II

Related Programs

This Appendix reviews programs and institutions which, while not actually part of our development assistance effort, relate directly to our assistance strategy and the assistance programs reviewed in the first chapter. These are the IMF, the Ex-Im Bank, Peace Corps, OPIC, Military Assistance, Arms Transfer Policy and the Private Voluntary Organizations (PVOs).

The International Monetary Fund

The International Monetary Fund (IMF) is the world's central monetary institution, with responsibility for promoting an open and expanding world economy. The Articles of Agreement are the rulebook for the international monetary system, and the resources of the Fund represent the principal source of official multilateral balance of payments financing for all its members, both developed and developing countries.

The IMF does not dispense aid, and this study therefore does not evaluate the institution or U.S. policy towards it. As is apparent from the following discussion, however, its facilities are important--even critical--to the development prospects of the LDCs, and its financial flows to them are substantial. In addition, IMF actions may lead to increased flows from other sources which will support development directly.

The financing provided by the IMF provides members with an opportunity to correct temporary maladjustments in their balance of payments positions without undue recourse to barriers to trade or capital flows, or other inappropriate restrictive measures. The Fund has developed a body of policies guiding how a member using Fund resources is to take corrective measures to restore a sound payments position.

The Fund's basic lending facilities are:

-- The "gold or reserve tranche," 25% of a member's quota. Gold tranche drawings are available automatically and unconditionally, subject only to a representation of balance of payments need, and are interest free.

-- The four "credit tranches," each equal to 25% of a member's quota, available with conditions incorporated in a standby agreement under which the disbursement of IMF funds is phased on the basis of agreed performance criteria.

In an effort to provide additional access to IMF resources to meet balance of payments needs arising from particular problems, the Fund also has in operation three special facilities.

-- Compensatory Financing Facility. This facility was established in 1963 to help exporters of primary products facing temporary shortfalls in exports receipts.

-- Buffer Stock Facility. This facility was established in 1969 to assist members in financing their contributions to international buffer stocks.

-- Extended Fund Facility. Under this facility, established in September 1974, the IMF provides longer term balance of payments financing to countries prepared to undertake an approved program of structural reform.

Also of interest to developing countries is the Trust Fund-a separate legal entity from the IMF, but managed by it--which provides additional balance of payments financing to the poorest IMF members (per capita GNP not above SDR 300) on more concessional terms than for regular IMF operations. Financing is provided from the profits on sale of 25 million ounces of IMF gold.

The large balance of payments financing requirements of recent years have led to record use of IMF resources and reduced sharply the Fund's liquidity. Agreement has been reached to temporarily increase the IMF's resources through the establishment of a Supplementary Financing ("Witteveen") Facility. This facility would be financed by several oil-exporting and major industrial countries that have agreed to provide about SDR 8.6 billion (about $10 billion) initially. These funds would be used to provide additional resources to member countries experiencing particular balance of payments problems.

The United States and possibly other members participating in the new financing arrangement will have to obtain legislative authorization for participation. A bill that would authorize U.S. participation has been submitted to Congress and is now being considered by subcommittees in the House and Senate.

Export-Import Bank

Although Ex-Im Bank is not a foreign assistance program, many of the projects for which it provides financing can contribute directly to LDC development. Ex-Im legislation will come up for review in 1978; and the Administration will submit its view to Congress on the appropriate course for Ex-Im.

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The Bank is an independent agency of the United States Government, corporate in structure, and was established in 1934 to help finance and facilitate the foreign trade of the United States. It does this by assuming commercial and political risks which the private sector is unable or unwilling to take, by helping overcome maturity and other limitations in private sector export financing, by helping U.S. exporters in meeting officially supported export credit competition from abroad, and by providing leadership and guidance to the U.S. banking and exporter communities and to foreign borrowers.

Ex-Im Bank has a paid-in capital of $1 billion, subscribed by the United States in 1945. Its costs are financed out of earnings consisting of fees, premiums, and interest. Accordingly, each transaction authorized must have a reasonable assurance of repayment. Interest rates and fees are set by the Board at levels reflective of the risks assumed, the cost of money to Ex-Im Bank, and similar charges levied by official export credit agencies in other countries.

Enabling legislation requires Ex-Im Bank to be competitive with similar agencies of other countries while seeking to reduce the possibility of an international credit race. Accordingly, Ex-Im Bank has negotiated an understanding with counterpart agencies abroad providing for maximum loan maturities and minimum interest rates. While there are provisions within this understanding for certain exceptions, the thrust is that export credit agencies are not to be considered substitutes for official concessional development financing (ODA).

Currently, Bank authorizations tend to concentrate in the economically stronger developing countries. In fiscal 1976, authorizations for sales to just four countries--Brazil, Mexico, Philippines, and Spain--accounted for thirty percent of total authorizations. Borrowers in the poorer countries generally cannot provide the assurance of repayment required, and those in wealthier countries normally have access to their own or international capital markets.

Peace Corps

The Peace Corps is a people-oriented program, a unique expression of America's humanitarian concern, and functions independently of official American missions abroad. Its interests, however, are specifically developmental and it provides valuable indirect support for our assistance objectives.

The Peace Corps is insulated from U.S. foreign policy considerations and interests, and maintains a separation from security or military assistance, both in substance and appearance. Within the context of Peace

Corps mission and purposes, cooperative relationships and projects may be promoted with other U.S. assistance programs.

Efforts now underway will clearly identify the Peace Corps effort with Basic Human Needs objectives. In FY 78 Peace Corps is authorized at $82.9 million and will field over 6,000 volunteers in 65 countries.

Overseas Private Investment Corporation (OPIC)

The Overseas Private Investment Corporation was created by the Foreign Assistance Act of 1969 as a government corporation to replace private investment stimulation activities previously carried on by AID. OPIC was formally organized in January, 1971. Its purpose is to mobilize and facilitate U.S. private investment in the economic and social development of less developed friendly nations.

OPIC's primary tool is insurance of private U.S. investments in approximately 80 LDC's against the risks of expropriation, inconvertibility of currency and loss due to war, revolution and insurrection. OPIC also helps identify suitable investment opportunities and provides direct lending and guaranties of private U.S. lending to investment projects for which adequate financing is not available on appropriate terms. OPIC provides expert counseling to U.S. investors on the investment aspects of doing buisness in the developing world and on the avoidance and resolution of investment disputes.

During FY 1974-76, OPIC assisted 425 investment projects in 55 developing countries. Total investment in these projects is expected to be $4.6 billion. In support of these projects, OPIC provided $1.06 billion of insurance, $44.3 million in investment guaranties and $20.1 million in direct lending.

It is estimated that the projects OPIC assisted in that period will enable those LDCs to achieve net foreign exchange gains of $1.3 billion, net additional fiscal revenues of $198 million and the creation of 149,000 new jobs.

The private investment projects that constitute OPIC's program are, of course, on commercial financing terms. They primarily serve the host LDC's economic growth, foreign exchange saving or earning objectives, rather than humanitarian or social development or political and security objectives. In this sense OPIC is more complementary to the official development assistance efforts of the IDLIs than to our bilateral development program.

OPIC will henceforth restrict its operations in upper income LDCs with a per capita GNP of over $1,000 in 1975 dollars. It will increase its efforts to promote investment in the lower income LDCs (currently defined as those with a per capita GNP under $250) and will also work with the middle income LDCs. It will continue to operate as a small (staff of 130), independent government agency, working closely with AID, State, Treasury and Commerce, all of which are represented on OPIC's Board of Directors, and within the Administration's overall strategy toward economic development.

Military Assistance

The U.S. provides through its military assistance program, defense articles, military training, and other defense services, by grant or cash sales, to enable friendly and allied nations acquire and maintain the capacity to defend themselves and thus contribute to U.S. world-wide interests in collective security and peace. The current program consists of four major parts.

-- The Military Assistance Program (MAP) provides defense articles and services to eligible recipient governments on a grant basis. The proposed FY 1978 MAP program totals $284.6 million. The FY 1977 MAP program of $449.5 million provides grant material to twelve countries.

-- The International Military Education and Training (IMET) Program provides military training to selected personnel from forty-six countries, at a total cost for FY 1978 of $35.7 million, an increase of approximately $8 million over the FY 1977 level.

-- The Foreign Military Sales (FMS) Financing Program provides loans and repayments guaranties to eligible foreign governments, on a fully reimbursable basis, for the purchase of defense articles, military training, and other defense services from the United States Government. For FY 1978, FMS financing program is $2,217.5 million for thirty-three countries. The FY 1977 program totaled $2,022.1 million.

-- Foreign Military Cash Sales are procedures through which eligible foreign governments purchase, with their own financial resources, defense articles, military training, and other defense services from the USG. In the Congressional Presentation document, potential foreign military cash sales are estimated at about $8.7 billion in FY 1977 and about $7.7 billion in FY 1978.

Arms Transfer Policy

The U.S. has historically used arms transfers as an instrument of foreign policy, generally approving sales

-- to influence individual nations and maintain regional balances;

-- to improve the defense capabilities of friendly nations and reduce direct American involvement; and

-- to secure base rights.

The new Carter Administration policy of restraint, however, serves important national interests:

-- to reduce both reliance on military solutions to disputes and the possibility of U.S. involvement;

-- to reduce expensive and dangerous arms races, regional or global;

-- to limit the diversion of resources and skills from developmental needs.

As we ourselves become less active participants in and beneficiaries of the arms trade, we will both gain leverage in achieving international agreement on the limitation of the global arms trade and be able to argue more convincingly that the developing countries should apply more of their resources to development.

Arms sales to the third world totaled $52 billion in 1974-76. Recent U.S. estimates indicated that LDC arms purchases will level off to $15 billion per year by 1980, with the United States providing approximately half. Beyond that, much will depend on the success of the Administration's arms control initiatives, although absorptive capacity of LDCs will also begin to be an important constraint.

The President is committed to a policy of reducing the U.S. role in arms transfers. We will:

-- cut back the dollar volume of MAP and FMS;

-- not be the first to introduce new weapons into a region;

-- not develop arms solely for export;

-- end co-production agreements for significant weapons;

-- closely monitor or limit re-transfers;

-- end government encouragement of arms sales.

Both grant military assistance and arms sales will continue to play an important role in our foreign policy and in our foreign assistance strategy. Although the Administration intends to reduce the role of the United States in the international arms market, our proportion of the total will remain high, both relatively and absolutely. Our grant military assistance 1/ and foreign military sales credits 2/ (averaging $200 million and perhaps $2 billion annually, respectively) play a decreasing but obviously significant role in this total. This will continue to have a significant effect on our development programs, and consideration of the tradeoff between military and economic programs must be insured in both policy and procedure.

Private Voluntary Organizations

The contribution to international development of private and voluntary organizations (PVOs), including co-operatives, is growing both in funds and services. Increasingly, PVOs are turning from their more traditional relief work towards development. In 1975, total private contributions from the U.S. to the LDCs amounted to $804 million. In FY 1977, USG support of the PVOs amounted to approximately $460 million, mostly in food aid.

AID assists PVOs and copoperatives in their development efforts through:

-- Operational Program Grants, which help PVOs undertake specific projects overseas.

-- Other grants which help PVOs meet costs of operating international programs.

-- A process registration and validation, making PVOs become eligible for additional subventions including ocean freight reimbursement, PL 480 Title II commodities, and excess government property.

-- A variety of workshops, seminars, and symposia for PVOs.

1/ Oriented mainly to base rights (Greece, Turkey, Spain, Portugal, Philippines).

2/ 75% of FY 1977 total programmed for Israel, Spain, Greece, Turkey, Korea.

PART III: ISSUES AND OPTIONS

Part I of this study discussed a comprehensive and flexible foreign assistance strategy to advance U.S. interests in the LDCs and meet basic human needs through economic growth. It recognized the need for a comprehensive U.S. response to the LDCs--including trade liberalization, increased access to capital markets, and higher levels of foreign assistance--as essential to our various political and economic objectives.

The assistance strategy described is based on the premise that accelerated development will encourage positive and constructive LDC participation in addressing a wide range of global economic and political problems. Part I stressed the multiplicity of U.S. interests and objectives, the diversity of LDCs, and the wide range of assistance tools required. Part I described a development assistance program oriented toward encouraging more equitable growth in the developing world by supporting LDCs' development strategies aimed at meeting basic human needs.

Part II described our various foreign assistance programs and discussed their relative strengths and weaknesses. It drew certain conclusions with regard to the comparative advantage of these programs in meeting U.S. objectives.

Both Part I and Part II emphasized that the key to LDC success in moving toward more rapid and more equitable growth lies with their domestic policies and actions. Consequently, Part II also assessed the effectiveness of concessional and non-concessional development assistance (BDA, PL 480, IDLI hard and soft lending, U.N. programs) in terms of their influence on changes and reforms in LDC policies, institutions, and programs. It recognized that for this purpose bilateral and multilateral assistance can be mutually reinforcing if provided within a framework of coordinated donor agency concern with LDC development policies at both national and sectoral levels, and the development of innovative programs within the framework of collaborative relationships with the LDCs.

Part III focuses on the choices which remain to be made concerning the specific implications for particular programs of the strategy described, and for the appropriate program mix. The first section of Part III deals with options affecting the implementation of our assistance strategy. The second section sets forth options affecting the major assistance programs described in Part II. The third section discusses possible administrative and managerial actions to increase assistance program effectiveness.

A. Strategy Options

1. Alternative Concessional Development Assistance Strategies

Given primary emphasis in support of BHN strategy, and setting aside for the moment SSA and IDLI hard lending, there are questions about the BHN strategy that should be employed using the concessional development assistance instruments--IDLI soft, U.N., BDA and PL 480--to best promote U.S. interests.

Options

There are three basic alternatives:

(a) Concentrate on key developing countries of importance to the U.S., irrespective of level of development. Under this option, the programs would emphasize, but not be limited to, a relatively small number of key countries. These countries would range from the poor (India, Philippines) through middle and higher income (Caribbean, Brazil, Mexico). The key criteria would not necessarily by the country's poverty or its commitment to growth with equity programs, but rather its economic or political significance to the U.S. (e.g., raw materials, regional stability, illegal migration).

(b) Concentrate on Global Problems. Under this approach, the U.S. would concentrate on one or two critical global economic or social problems of concern to all countries, and focus its development assistance program on their long-term solution. World hunger and health, including family planning, are possible target areas. Activities in other fields would be sharply cut back. These global efforts would be undertaken in areas, countries, or institutions where "payoff" on the specific long-term problems is greatest, regardless of per capita income or other economic and political considerations.

(c) Concentrate on poor countries in support of Growth with Equity/BHN. Under this option, assistance would be provided to a broad spectrum of LDCs, with priority placed on the poor countries. The objective would be to improve production and employment as well as the basic services for the poor majority. Funding would be concentrated on countries with domestic policies favorable

to equitable growth, with the more populous ones receiving larger allocations assuming their commitment to BHN.

Implications of Options

Option 1 lays emphasis on the importance of our economic and political relations with particular LDCs and recognizes that many middle income countries have significant problems in meeting basic human needs of their people.

The main difference between Option 1 and Option 3 is degree of emphasis on middle-income countries. Option 1 implies continuation of significant bilateral development assistance programs, with a general BHN focus, in key countries, and contemplates the resumption of programs in others. Decisions on U. S. assistance would not be determined solely on the recipient's development strategy, however. Under this option stronger emphasis would be given to PL 480 Title I as opposed to Titles II and III. To the extent that it is easier to accomplish concentration within bilateral programs, this option would tend to favor such programs over multilateral approaches.

Option 3 also envisages concentration in particular countries but it puts more emphasis on the need for concessional assistance in poorer countries and countries' commitment to BHN objectives. It allows but gives less emphasis to programs in middle income LDCs, on the assumption that the impact per dollar of additional concessional assistance in meeting basic needs or addressing global problems will be greatest in the low-income countries.

Option 3 envisages a balanced expansion in both bilateral and multilateral concessional assistance instruments.

Options 2 and 3 could focus basically on the same objectives in terms of addressing global problems in whose solution LDCs play a key role. However, Option 2 adopts a sectoral approach whereas Option 3 adopts a country approach and a wider range of BHN programs. The choice of Option 2 would imply more stress on international programs, with new international initiatives and/or strengthening of existing international institutions such as U.N. agencies with functional specialization (e.g., WHO, FAO). Under the global

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approach, international institutions would focus their assistance on countries which can make the largest contribution to solving key problems, irrespective of their level of development.

Advantages and Disadvantages of Options

Option 1: Concentrate on Key Developing Countries

Advantages

1. Enables the U. S. to concentrate resources in countries of economic and political significance.

2. Provides for most flexibility in allocating economic assistance and helping countries where the U. S. has special interests which may be advanced through assistance programs.

3. Key countries may be more advanced and have fewer problems of absorptive capacity.

4. Support for emerging countries with a stake in a stable international economic order would increase the chances that they would play a constructive role in overall North-South relations.

Disadvantages

1. Many middle income countries have the resources to deal with BHN problems, but lack the proper policies to address them. Concessional assistance forms a small proportion of capital inflows in some of these countries, and our leverage in promoting BHN is limited.

2. Global problems such as food and population which are important to a BHN strategy would not be as effectively addressed as under other options.

3. Many key countries could afford harder terms than those normal under concessional assistance programs. This approach would not be as responsive to our humanitarian concerns in the low income countries.

Option 2: Global Problems Approach

Advantages

1. Focuses world-wide attention on global problems.

2. Could elicit strong support in the U. S. public by focusing attention on global problems.

3. Encourages initiatives and institutions to mobilize to address these problems, on the assumption that existing institutions have proven inadequate.

Disadvantages

1. Global problems in particular sectors cannot be solved except in the context of particular countries. Overall country policies determine progress in attaining sectoral objectives.

2. Could involve the creation of costly new bureaucracies.

3. Global problems concentration could dilute the growth with equity strategy which is now increasingly supported by Congress and the public.

4. Since the international institutions are under pressure to maintain programs in all member countries, some countries which might receive assistance in an effort to address world-wide problems may not need it.

Option 3: Concentrate on Poor Countries

Advantages

1. Focuses concessional assistance instruments on those countries where the problems in terms of addressing BHN are the greatest.

2. By placing an attack on problems such as hunger and population growth in the context of a coordinated multi-sector effort to meet basic human needs, and emphasizing the key role of policy reforms, Option 3 is likely to be more cost-effective than Option 2.

3. Permits selective attention to BHN problems of middle income countries and maintenance of a U. S. presence in some of these countries in pursuit of other objectives.

4. Concentration on low income countries is consistent with the present Congressional mandate and has increased public support.

5. Existing institutions are appropriate to the pursuit of BHN objectives. Efforts could be made to increase their effectiveness where needed rather than to create new institutions.

Disadvantages

1. Does not allow for maximum concentration in countries of key overall political and economic importance to the U. S.

2. May imply assistance to some countries with different economic and social philosophies, some of which have tended to be disruptive of the international economic system and pursued confrontational approaches in North-South relations.

2. U. S. Role in Support of BHN Strategy

A basic human needs strategy is becoming more important in the programs of many donors and multilateral assistance institutions, particularly the soft windows. The President, the Secretary of State, and the A.I.D. Administrator have publicly stated our support of development strategy with a BHN focus. It effectively complements our human rights efforts.

BHN is as much a recipient country strategy as a donor country strategy, and its success depends on political commitment, effective policy design, and allocation of local resources by recipient countries. This often requires difficult political decisions. It also involves a degree of donor country monitoring of recipient country policies in order to ensure that the necessary recipient policies are present.

3. Effectiveness of Quantitative Targeting of U. S. Development Goals

There are two aspects to this question:

--Should the USG formulate quantitative development targets for use in organizing its own programs or for influencing international and LDC planning exercises, or both?

--If we do, what types of targets make most sense?

The advantage of any type of targeting is that it can enhance planning, help mobilize efforts towards concrete objectives, and keep the focus on the results of development efforts by both donors and recipients. Targets can put the spotlight on LDC policies and performance as well as our own, giving us leverage on LDC policies.

The disadvantages are:

--Given inadequate knowledge in socio-economic fields, difficulties in measuring results, and the fact that targets frequently do not differentiate between the varying needs and circumstances of countries, they are often not very meaningful or credible; furthermore, failure to meet the targets may tend to place extra pressure on the donors and become a political liability, as has been the case to some extent with respect to the target of ODA as a percentage of GNP;

--Target setting on recipient performance also tends to generate calls for the establishment of comparable donor commitments on aid.

Various types of targets can be considered:

(1) Universal goals eliminating hunger or reducing infant mortality and fertility rates, or increasing overall LDC growth rates;

(2) Targets with respect to donor performance;

(3) Targets for achieving global progress in specific functional sectors, such as food production, which are of particular importance to LDC development;

(4) Country- and project-specific targets.

4. Development Assistance in Support of BHN Strategy: Program Content

While the Development Coordinating Committee concluded that U. S. development assistance programs should support LDCs' BHN strategies, a question remains with respect to program content. BHN activities can range from narrowly defined transfer efforts to supplement the diet of

particular disadvantaged groups, to a broad focus with program lending in countries where overall programs and policies are effective in addressing basic human needs objectives. This focus has important implications for the objectives and interests to be served and for the scale and effectiveness of assistance efforts. The range of activities which could be supported can be grouped into three approaches.

Narrow BHN Program: This approach would concentrate assistance on programs which have a direct, immediate and exclusive benefit for the poor. It would emphasize the rural poor in agriculture and related non-agricultural activities, and include direct food aid as well as financial and technical assistance for low-cost health, nutrition, basic education and family planning programs directed to low income families. It would also include assistance designed to increase inputs of fertilizer, seeds and credit to low income rural producers, including both small farms and small rural industry. It could also include rural drinking water, sanitation and endemic disease control programs.

Intermediate BHN Program: This would include the activities under the "narrow" approach, but would be broader in several ways:

-- Construction or renovation of physical infrastructure, so long as the relationship of that infrastructure to the poor is relatively direct. Examples include local level infrastructure such as farm access roads, irrigation canals, and rural electrification distribution systems, along with the institutions required to ensure equitable access by low income producers; rural marketing and storage facilities; basic utilities for low income urban neighborhoods.

--Creation and strengthening of nationwide institutions, so long as they include an orientation towards basic human needs problems of the poor. Examples include agricultural research, education and extension systems and policy planning units in relevant government ministries and agencies.

--Construction of primary schools and strengthening of development oriented higher education.

--Credit and technical assistance for small, labor-intensive enterprise and for upgrading low income shelter in major urban centers.

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Broad BHN Program: This would provide financial and technical assistance for many sectors and most scales of economic activity. In addition to the project and sectoral focus of the previous approaches, it would include financial assistance for general commodity import programs. Project and sector assistance could include:

--Major power, transportaiton and urban infrastructure (dams, ports, railways, power generating plants);

--Secondary schools, universities and hospitals; and

--Large-scale agricultural industrial and mining undertakings.

The narrow approach, which concentrates assistance on activities where the impact on the welfare of the poor is fairly immediate and observable, could have a strong humanitarian appeal. It may also be supported by those who believe assistance for physical infrastructure and agricultural research systems do not provide sufficient benefit to the poor. Although the resource requirements for potable water systems and provision of current inputs for low income producers could be substantial, the overall external resource requirements for the narrow approach are clearly less than for the other approaches.

The narrow approach would fall far short of providing the resource requirements for an effective approach to basic human needs objectives. The narrow approach precludes assistance for activities which are vital to accelerating growth and raising the incomes of the poor, such as rural infrastructure and agricultural research and extension. It could increase the suspicions of LDCs that the basic human needs approach is intended to keep them in poverty and limit serious dialogue on national policies critical to BHN objectives.

The intermediate approach provides ample scope for assistance in support of activities which make critical contributions to growth with equity and BHN objectives and support a meaningful dialogue with LDCs on national policies.

The boundary between the intermediate and the broad approach can be arbitrary, however. Major infrastructure and large-scale industrial, agricultural or mining undertakings may be absolutely essential for growth in support of basic human needs objectives in some countries (e.g., the Sahel).

B. Program Mix Options

1. Bilateral Development Assistance

The U.S. bilateral development assistance program under its New Directions mandate is fully consistent with the BHN strategy discussed in Part I. There are several issues concerning country and sector focus, the use of performance criteria, and/or LDC need in the allocation of bilateral development assistance.

a. Country-Mix: Middle-Income vs Low-Income Countries

Basic human needs objectives are stated in terms of poor people rather than poor countries; this implies a willingness to assist in meeting basic needs in middle-income countries as well as in low-income countries. Continuation of modest aid programs in middle-income countries could have an important impact on achieving global BHN objectives.

High average per capita incomes in these countries mask the presence of vast numbers of very poor people who could benefit from the U.S. emphasis on BHN. AID could phase out of middle-income countries more slowly and possibly return to important middle-income countries where it has already phased out. Terms could be hardened for relatively better off countries under existing authorities.

In addition, AID might also be able to contribute to more rapid and equitable growth by facilitating the transfer of appropriate "hard" and "soft" technologies in which the U.S. has a particular competence. Many middle-income countries desire technical assistance from U.S. universities and federal agencies, but cannot afford to pay cash as is required under the reimbursable technical assistance programs.

It could also be argued that given scarce AID funds and expertise, programs in middle-income countries should be phased down or out over the next 5 years for concentration on the countries most in need of assistance. Rapidly growing hard loan financing, trade, and access to capital markets are much more important for these countries than concessional assistance.

Options

(a) Phase out bilateral programs in most countries over the IDA limit within the next 5 years, leaving to the IFIs, SSA, reimbursable assistance, and other U.S. instruments the task of carrying out U.S. assistance objectives.

(b) Move toward phase out in these countries at a slower pace, limit total size of this portion of the program, concentrate on catalytic efforts likely to significantly affect the lives of poor people, condition aid on the recipient's agreement to increase substantially its own efforts, and keep such programs second priority to reaching low-income countries.

(c) In addition to (b), design new programs for the transfer of technologies to the middle-income countries.

(d) Take a more assertive posture and seek opportunities to return to key middle-countries where we have already phased out--e.g., Brazil, Colombia, Mexico, etc.

b. Country Mix: Aid Allocations and Development Performance

A basic human needs strategy has somewhat conflicting implications for allocation among countries. On the one hand, the emphasis on the well-being of the individual suggests a "one-man-one-vote" principle to give each individual an equal claim on resources. By this criterion, allocations would be determined on the basis of the size of a developing country's "poor majority" population. On the other hand, the emphasis in the basic needs strategy on policy, institutional and program changes necessary to increase development implies that assistance should be conditioned on country performance in making needed changes.

Allocation based solely on need would require relatively little analysis or coordination, and would minimize frictions caused by disagreement over developing country policies, but it would also reduce incentives for policy reforms and result in slower progress toward meeting basic needs objectives.

Conditioning aid on performance may result in acceleration in needed policy reorientations, but reducing assistance for non-performers could well conflict with the need criterion; it would also require a relatively "instrusive" U.S. position vis-a-vis recipient policies and thus entail costs in terms of other aspects of U.S. relations with the recipient country.

The criteria can be combined. In countries with poor performance, low levels of assistance can be provided to meet basic needs and support long-term reforms; as commitment to basic needs objectives improves, assistance could increase and broaden. This balance between needs and performance considerations facilitates the sort of long-term constructive dialogue on issues which is most likely

to promote reforms. A disadvantage it shares with the "performance only" approach is that it still requires extensive analysis and close donor coordination.

Options

(a) Base country assistance allocations principally on need; do not allocate aid on the basis of country performance and do not attempt to use aid levels as leverage for policy changes.

(b) Condition bilateral aid only on satisfactory country performance in the sectors in which aid is given.

(c) Provide a basic level of assistance based on need, with increases above that level conditioned on country performance in orienting overall and sectoral policies toward basic needs objectives.

c. Functional Mix: Sectoral Composition

The AID program is concentrated in agriculture and rural development, education, and health and population, with small programs in areas such as energy, environment, appropriate technology, and urban development. The basic human needs strategy emphasizes food production and nutrition, human resources development, and employment-intensive growth, but recognizes that other sectors are important to equitable growth.

AID need not attempt to cover all sectors in a BHN strategy, for the IDLIs will concentrate on major infrastructure and other donors can work in areas not covered by AID's program. Estimates of basic needs requirements, however, suggest that water supply and shelter, for example, need substantial amounts of additional assistance. In the case of shelter, AID's current non-concessional Housing Investment Guaranty program ($100-150 million a year) has been concentrated mainly on middle-income countries. Growing international concern may warrant movement into other areas, including ecological issues and energy.

There are also advantages to continued concentration in those areas in which AID has built up expertise over the years, and it can be argued that bilateral assistance would be most effective if confined to the current major program areas. However an adequate response to basic needs objectives and global problems requires a somewhat broader focus, whether from AID or elsewhere, and it is not clear that an increased emphasis in some fields would necessarily result in any significant loss of program effectiveness.

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Options

(a) Keep the bilateral development assistance program on its present sector emphasis, regardless of program size.

(b) Permit an increase in emphasis on fields important to basic human needs objectives as part of a growing aid program, taking account of capacities and interests of other major donors.

d. Staffing Mix: Mobilizing U.S. Expertise

Effective mobilization of U.S. technical expertise in support of development remains a basic challenge. A substantial portion of the bilateral aid program has been carried out by U.S. universities and private contractors and grantees, especially since the early 1970's when AID moved away from direct-hire implementation of development projects.

In the past few years there has been a strong move on the part of the Congress to increase the role of the private sector, particularly universities and voluntary agencies, in planning and carrying out bilateral aid. Most significantly, Title XII of the Foreign Assistance Act, enacted in 1976, provides that greater use be made of U.S. land-grant colleges and other agricultural institutions in the planning and implementation of agricultural development programs.

There is also some feeling that despite America's great scientific and technical capacity, the U.S. skills needed to help developing country programs in basic human needs areas is severely limited and declining rather than increasing. Thus in agriculture, health, education there is major concern for increased funding to strengthen U.S. institutions capacity so that they can respond more effectively to AID and LDC needs.

A related problem concerns the magnitude and types of research and development which should be done if the U.S. is to have a substantial impact on LDCs' problems. Some people argue in favor of more basic research in the U.S. concerned with longer-term problem solving. On the other hand, there are those who maintain that the existing body of technology is, by and large, sufficient for the needs of most developing countries; that the problems that need to be addressed by research tend to be country or region-specific in nature; and that the limiting factor is the inadequacy of LDC institutions and manpower. This latter position implies that research should be carried out by the developing countries themselves, with assistance as required from the U.S. and other donors.

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It is important to determine what the future need for additional technical expertise is and how it should be met. Because the issues involved are complex, the DCC is not proposing options for consideration at this time.

2. Security Supporting Assistance

Background Discussion

This program, with $2.2 billion in annual commitments in 1978, has three main elements: (1) economic assistance to Israel, Egypt, Jordan, and Syria to further efforts toward a peace settlement ($1.7 billion); (2) payments for base arrangements in Malta and Spain; (3) balance of payments and other economic support linked to a range of foreign policy purposes in Portugal, southern Africa, and Jamaica.

Supporting Assistance is the most effective assistance program for supporting United States efforts to help stabilize regional and country situations which directly or indirectly affect United States security. Fast-disbursing PL 480 Title I food aid can also be effective in this regard, but it is less flexible because it is limited to food shortage countries which can comply with "usual marketing requirements."

Use of Security Supporting Assistance

In the mid-1970s, Supporting Assistance was allocated almost entirely to the Middle East, where the relationship of greater political and economic stability to our security interests has been clear. Commencing in 1977, the program has been expanded to cover situations--Portugal, Southern Africa, and Jamaica. While SSA may have been the best available means of meeting these objectives, the question remains whether SSA should continue to be used to achieve a wide range of political and economic objectives. Congress has recently called for attention to relating SSA to the recipient's longer-run development problems as well as to basic human needs.

Budget priorities as between development assistance and SSA can be difficult to assess, because there may be little common ground between the short-run political objectives served by some SSA items and the longer-run interests served by other SSA and non-SSA items.

Options

(a) Continue to regard SSA as a valid instrument in meeting security and political needs, as at present.

(b) Give greater emphasis to economic criteria for SSA.

3. Public Law 480

The PL 480 program currently provides approximately $1.4 billion in food and other agricultural commodities annually to the LDCs. Because much of the criticism of past performance and recommendations for change are generated by the program's multiplicity of goals, it is useful to review each of the several objectives in the program's authorizing legislation.

Development

The Title I program in the past has often reflected domestic U.S. agricultural concerns and paid inadequate attention to LDC economic development needs; in some instances Title I imports have tended to depress local prices and may have discouraged LDC food production. Recently announced decisions by the President and USDA, however, indicate that positive efforts will be undertaken to use Title I as a developmental tool. The Title II program operates through U.S. private voluntary agencies and the World Food Program; although the linkages between these programs and overall development have not been adequately analyzed, food for work programs have in many cases contributed to local development efforts. The new Title III program will provide another important capability in improving developmental impact, through multi-year programming and debt forgiveness.

Security and Trade

In some countries food assistance has been used primarily to further U.S. foreign policy objectives including political support, balance of payments support and support of trade agreements. Title I has also been used for short-term political effect, often in amounts insufficient to have measurable developmental impact.

Supply Management

The PL 480 program, particularly Title I, has been utilized as part of the overall U.S. domestic and international supply management system. Title I has had some useful benefits in commercial market development and also as a means for domestic commodity disposal. The Administration's recent announcement on agriculture policy, however, calls for an improved arrangement under which a system of reserves would be set up domestically and internationally to respond to both supply management requirements and international needs for countercyclical food aid.

The primary constraint on planning for increasing food assistance is an analytical skepticism that significant increases can be used effectively. This is based on past performance rather than the new proposals. It is likely, however, that there will be strong support for continued high levels of food aid.

The role of food aid may be critical in the development process. As income levels of the poor majority increase, the demand for food may outstrip increases in domestic food production; PL 480 could be an important instrument in filling this gap. It can also be used for leverage to achieve policy reform.

Three basic issues emerge when reviewing improvement of the food aid program.

a. Role of Market Development and Surplus Disposal. Recent announcements downplay surplus disposal as an immediate objective of the PL 480 program; market development will be de-emphasized or a separate facility for that purpose may be established within USDA. A specific food reserve is being considered for U.S. domestic and international purposes.

Options

(a) Continue efforts to remove market development considerations from PL 480; explore establishment of a separate USDA facility for this purpose.

(b) Push hard to de-emphasize both market development and surplus disposal considerations from PL 480 to the extent possible without jeopardizing needed support.

(c) Continue to program PL 480 as in the past, with domestic commodity management playing a major role in determining overall levels and country allocations.

b. Greater Emphasis to Economic Development via Multi-Year Agreements. Congress has legislated that 75 percent of PL 480 Title I go to IDA-eligible countries. It has also created a new Title III Food for Development program under which the Administration is authorized to enter into multi-year agreements. The issue centers on the degree of emphasis which U.S. gives to using PL 480 to spur economic development via multi-year programming.

PL 480 Title I agreements are negotiated for a single year at a time. Annual negotiations are time-consuming, and also create uncertainties

which discourage careful programming by either the U.S. or the recipient government and limit the amount of influence the U.S. might exert for policy reform. Under the new Title III Food for Development legislation, the Administration is authorized to enter into multi-year agreements of up to five years and is urged to commit an increasing percentage of the Title I funds in this fashion. (Remaining Title I assistance would continue to have priority development objectives to the degree possible under single-year programming.) Assistance would be provided subject to performance in meeting agreed indicators, such as implementation of self-help measures designed to eliminate disincentives to LDC domestic food production.

Options

(a) Emphasize greater use of food aid for development; encourage the fullest use of multi-year commitment authority in Title III, as well as strengthening development objectives under Title I programs.

(b) Provide multi-year agreements in support of development only up to minimums required by Title III, in recognition of the difficulties of enforcing effective self-help conditions and the need to continue to use PL 480 Title I program for foreign policy balance of payments support.

c. Use of Title II

There are strong pressures both within the Congress and from the private voluntary organizations to substantially increase the Title II program. There is a consensus that the emergency relief program works very well; it must remain responsive to world conditions, however, and cannot be programmed in advance. Therefore, increased Title II programs will require larger maternal child health (MCH) activities. Food for Work programs, and school feeding programs.

To be effective, MCH and Food for Work programs must be fully integrated into the host government's development strategy. To the extent that such activities are targeted on the rural areas, extensive delivery systems and local infrastructure are needed; these are frequently not available in LDCs, particularly in Africa, where expansion of the program would require substantial non-food resources. School feeding programs are easier to administer and could be more easily expanded, although the nutritional and developmental impact of such programs is often limited by low school attendance.

Options

(a) Focus on the development impact of Title II programs; expand only as the voluntary agencies and the World Food Program demonstrate their ability to effectively manage and integrate larger programs.

(b) Increase the program substantially, recognizing that much of the growth is likely to be in programs of lesser priority.

4. International Development Lending Institutions

a. World Bank vs Regionals

The World Bank group dominates multilateral assistance in terms of lending levels and share of U.S. appropriations; in the last fiscal year, the IBRD made roughly four-fifths of the hard loan commitments, while IDA normally makes about two-thirds of the soft window loans. In a policy sense, the World Bank tends to set the directions for developmental planning in the IDLIs and is the only institution with the leverage to significantly affect LDC policies and strategies. Finally, in FY 78, two-thirds of the Administration's appropriations request was for the World Bank.

In terms of lending patterns, the World Bank has tended to be involved in every sector, with major emphases on power, infrastructure, DFCs, industry, and rural development. The IDB has emphasized agriculture, power, infrastructure, and industry, and mining. The Asian Bank has followed these same trends, with public utilities receiving a slightly greater emphasis.

In principle, one issue raised is whether to place greater U.S. support behind the regionals. The advantage would probably be greater influence, although the regionals generally lack clout on developmental policies. On the other hand, less support for the World Bank would probably translate into less U.S. influence on the most influential bank.

Since it appears that funding for both the soft and hard windows of the World Bank should increase, the issue is the rate at which we wish the regional banks to grow. A slow rate could have implications for our political relations with countries in particular areas. A faster rate, assuming constant country shares, implies higher overall levels of U.S. assistance.

The proper balance in growth would also depend on what we would want each bank to do. If one postulates a specialization of functions, the World Bank could do more BHN and the regionals could do more power, infrastructure, and industry. If it is thus assumed that programs in support of BHN should have a lower priority for the IDLIs than projects for power, infrastructure, and industry, there would be more U.S. funds and faster rates of growth for the regionals. The reverse could also be considered.

Options

(a) Present balance is appropriate.

(b) Faster growth for the World Bank with a stress on BHN while the regionals stress power infrastructure and industry.

(c) Faster growth for the World Bank with the regionals doing more BHN.

(d) Faster growth for the regionals with the above sector functions.

b. Hard vs Soft Windows

The issue is whether the U.S. assistance policy should place a greater emphasis on the hard or the soft loan windows of the IFIs. In practical terms, a policy decision could seek faster rates of growth in lending by either group.

In their most recent fiscal years, the hard loan windows made 76% of total IFI commitments of $9.6 billion. The hard loan windows grew at 14%, compared to an 8% decrease for the soft windows. (This decline was due to a 20% decline in IDA lending due to foreign exchange losses, and will not recur.) In the next fiscal year, the hard loan windows are expected to make about 70% of the $11.1 billion in IFI loans, or $7.8 billion, as the soft loans jump to $3.3 billion. (This soft loan increase is due to a $1.0 billion jump in IDA.) In FY 78, the total Administration IFI appropriations request was $2.6 billion, of which $1.16 billion (44%) was for the hard windows and $1.45 billion (56%) was for the soft windows.

The above figures illustrate one of the key tradeoffs in this issue: a U.S. aid dollar for the hard windows generates a considerably greater multiplier effect on IFI lending levels than a U.S. dollar to the

soft loan windows. There are two reasons for this: 1) the U.S. share of the hard loan windows tend to be lower, thus generating greater burden-sharing; 2) the hard loan windows roll over their funds faster, increasing lending at the cost of greater debt burdens for the LDCs. In addition, the hard loan windows are financial intermediaries transferring funds borrowed on private capital markets to the LDCs. The developed country guarantee backing of hard loans permits the IFIs to borrow and re-lend with long maturities at interest rates below what the recipient countries would obtain if they attempted to borrow directly (if they could obtain funds at all). However, the hard loan program does not count as ODA.

At the country level, the tradeoffs for U.S. policy involve additional support for upper and middle income countries or the poorest countries. Hard lending generally focuses on countries in the $400-$2500 per capita income range, which have demonstrated economic potential. This group includes most of the major LDCs, which are of political importance to us. Soft lending aims at countries below $400 per capita income which tend to have little short-term economic potential.

At the sector level, the policy tradeoffs generally involve additional support for a mix of U.S. objectives (energy, raw materials, industrial development), as opposed to a greater emphasis on BHN objectives. While the hard loan windows can, and will, pursue BHN objectives in the future, the record has been that the soft windows have done more. Given the lower short-term economic rates of return generally found in BHN projects, as compared to power or minerals projects, more activities aimed at BHN objectives are financially feasible at fifty-year terms than at twenty-year terms.

The final tradeoff involves the potential for leverage. The IFIs tend to have greater leverage on the smaller, poorer nations. These countries have a greater need for both financial resources and the technical and policy advice which the IFIS can provide. The upper income countries, on the other hand, have generally established their developmental strategies and priorities and have greater access to alternative sources of capital.

Options

(a) Present Balance between Hard and Soft lending is appropriate.

(b) We should emphasize hard lending proportionately more.

(c) We should emphasize concessional lending proportionately more.

5. International Organizations and Programs

Role of UNDP and the Specialized Agencies

The United Nations Development Program is the primary programming, funding and coordinating institution for technical assistance in the UN development system. It has a network of resident representatives in some 140 countries who administer its programs. With few exceptions, UNDP does not implement technical assistance itself but uses other UN organs and the specialized agencies of the UN system as executing agents.

Financial and management problems in the UNDP beginning in 1975 were a principal reason for a growing trend among the UN specialized agencies to conduct their own technical assistance programs without the participation of the UNDP. These independent programs have been funded essentially through assessed budgets of the UN and the specialized agencies, and by voluntary contributions as well.

As a member of the Ad Hoc Committee on Restructuring, the U.S. has been encouraging a strengthened funding and programming role for the UNDP, which would in the process consolidate the multitude of special funds and programs of the UN system. Even though there is a marked improvement in the financial status and management of the UNDP, the issue remains over the future role of the UNDP vis-a-vis the specialized agencies and whether the U.S. should continue to oppose the spread of technical assistance efforts.

Options

(a) Strengthen UNDP's central funding and programming activities to the extent possible, channelling U.S. voluntary contributions through the UNDP.

(b) Permit UN system to continue a wide range of flexibility in the degree of centralization of funding and programming, with the U.S. monitoring and evaluating UNDP and specialized agency performance; through U.S. influence, attempt to adjust the degree of centralization according to measured performance.

(c) Restrict our support of the UNDP to the minimum needed to keep the Resident Representative system of coordination viable; permit UNDP to coordinate and implement those programs, which, because of their functional or geographic characteristics, are best handled by a central organization.

C. Improving Effectiveness of Foreign Assistance

The President has called for a substantial increase in foreign aid by 1982 and for an improvement in foreign aid effectiveness. At CIEC, Secretary Vance, said "For our part President Carter will seek from Congress a substantial increase in the volume of our bilateral and multilateral aid programs over the coming five years. But we will demand that this aid be more effectively planned, delivered and administered."

There are many facets to the problem of increasing the effectiveness of U.S. foreign assistance programs, some of which were not "assigned" to this effort. For example:

-- the current Executive Branch structure for policy formulation and operation of U.S. bilateral and multilateral assistance efforts.

-- the current institutional aspects of North/South dialogue, including mechanisms for improving international coordination of foreign assistance programs.

1. Effectiveness of U.S. Bilateral Development Assistance

Given AID's present overall staff levels and skills, heavy focus on projects with less emphasis on assistance tied in to supporting LDC policy reforms, detailed legislative reporting requirements, and detailed Congressional oversight of AID's operations, which is extremely manpower and time-consuming, the Agency could be hampered in efficiently implementing a substantially increased bilateral development assistance program. Measures which might be taken to improve the effectiveness of our bilateral programs include:

-- revise and streamline the FAA to make it adequate to the needs of operating the foreign assistance programs of the 1980's;

-- introduce a new concept for the annual Congressional Presentation and for oversight functions by Congressional Committees which concentrate more on reviewing overall LDC policy objectives and commitment than on detailed project review as a basis for determining AID's effectiveness;

-- decentralize AID's operations, delegating more responsibility for program design and implementation to field missions, and streamline AID/W review procedures to reduce size and responsibility of AID/W staff in these areas.

2. Effectiveness of U.S. Multilateral Development Assistance

Depending on the sector mix, additional lending in large projects with fixed administrative overhead (e.g., power) can be accomplished without sacrificing quality. In the case of increased lending, in support of BHN objectives, the general rule probably applies.

Possible actions which should be examined include:

(a) Within the USG:

-- Complete an intensive review of all IFI policies for action in the banks and transmittal to the Congress;

-- Coordinate with other major donors to examine the need to increase the degree to which the shareholders exercise practical influence over IFI policies.

(b) Within the IFIs:

-- Lower the administrative costs of lending operations;

-- Lower the relative salaries and compensation of IFI staffs and EDs, compared to those of the USG;

-- Shift the program emphasis toward increased emphasis on activities which promote BHN objectives and direct lending to the poor;

-- Strengthen the World Bank's ability to exercise policy leverage over LDCs, where necessary.