# Development Issues

## U.S. Actions Affecting the Development of Low-Income Countries

*The First Annual Report of the Chairman of the Development Coordination Committee Transmitted to The Congress February 1, 1979*

**THE DEVELOPMENT COORDINATION COMMITTEE**
**WASHINGTON, D.C. 20523**

February 1, 1979

To the Congress of the United States:

I hereby transmit to the Congress the Annual Report on Development Coordination for 1978, in accordance with Section 634(a)(1) of the Foreign Assistance Act of 1961, revised by the International Development and Food Assistance Act of 1978.

JOHN J. GILLIGAN
Chairman

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# THE CHAIRMAN'S PREFACE

Last September, I met with a small group of people in the town of New Milton, just outside of London. Judith Hart, Britain's Minister for Overseas Development, had invited us to discuss development, the concept of interdependence, and what the future held for all of us.

We came from various governments and development institutions—from developing as well as developed countries—but we spoke only for ourselves. There was no agenda. There were no prepared papers, no staff assistants. There were no reporters, notes, or publicity. We simply talked. We found ourselves discussing the global nature of almost every facet of our individual national concerns: economics, politics, growth and security, of course; but also the more immediately human problems of population growth, hunger, health, education, employment, and the implications of energy and environmental problems. I was struck by the degree to which these topics and the solutions to the problems they pose are interrelated.

I was also struck by the pervasiveness of one theme in the remarks of those representing the developing countries. They are united in a deep resentment against what they perceive to be the entrenched indifference of the developed countries, notwithstanding that they differ in their traditions, their political postures, their economic prospects; that their needs and their capacities vary; that in many ways they are in competition with one another. Part is rational and justified, part exaggerated and emotional, but all of it is there, and we must deal with it.

Clearly, we must increase our efforts to improve the economic prospects of the developing countries—it is incumbent on anyone who subscribes to our moral tradition. I do not argue that otherwise the developing countries will bring the industrialized world to its knees; but, I do say that an international economic system which takes account of the world's development needs now will also be one which yields more for all in the future. I do not argue that we now stand at the brink of apocalypse, but I am convinced beyond any doubt that these global problems are far more pressing than we appreciate or acknowledge in our policymaking.

Also, we discussed how frequently our ideas about world poverty are misconceived. The task of dealing with global poverty is staggering, but it is not hopeless. The world's poor lack material goods, but are rich in their creativity and their spirit. Ultimately, solutions to these problems must lie with them. Many developing countries have made impressive progress. In some, once considered inherently underdeveloped, remarkable progress has been achieved in the face of enormous constraints. We must respect what has been done even as we acknowledge that enormous problems remain.

I brought these concerns back with me, and I have discussed them with our own officials, with academics, and with concerned citizens. I met with experts on Third World issues who have been doing pioneering work in assessing alternative global prospects, and my sense of urgency about global problems was reinforced. There is unavoidably a time lag between the recognition of problems and the emergence of the public policies and private initiatives necessary to deal with them, and this lag seems to increase with the scale and complexity of the problems.

We must acknowledge that our future prosperity and social well-being are linked to the future prosperity of the now less developed world. We must accept on the one hand that development is not a problem for the poor countries only, and on the other, that the industrialized world does not have all the answers. If we recognize this interdependence—and I believe that this Administration has done so—we must act. We must increase the quantity and quality of our joint effort in a relationship of partnership. Foreign assistance is only a part—albeit an important one—of this effort, which extends from our trade policy through our activities in multilateral institutions to the style of our bilateral relationships.

The experience at New Milton convinced me more than ever of the importance and the magnitude of the job we have ahead of us, not only for the hundreds of millions of impoverished people spread over the globe, but also for the well-being and security of the people of the United States. The problems will not go away; the only question is how quickly and effectively we will deal with them.

The Carter Administration is committed to seeking "substantial increases" in our foreign assistance programs. The President has, nevertheless, recently decided to make 1980 a year of consolidation and limited or no growth in government programs—including foreign assistance—consistent with his conviction that pursuing an austere budget is a key element in controlling inflation. This is vital not only to our own economic strength, but also to that of other developed and developing countries.

Achievement of the Administration's assistance targets has therefore been stretched out by one year. The commitment and the determination to reach them, however, remain—as do the problems which our assistance efforts seek to solve.

# CHAPTER I

## Introduction

1978 was a year of integration of the foreign policy themes of the Carter Administration. Significant among these has been increased attention to the interdependence of developed and developing countries, to human rights and basic human needs, and to the need to improve the effectiveness of the development efforts both of donors—whether nations or institutions—and of recipient countries.

The key question is: as the less developed countries (LDCs) assume a more active role in the international economy and acquire a larger percentage of future growth, will the world be a more secure and satisfying place for all of us? This Administration believes it will.

Thus, the importance of the developing countries to our national interest and objectives, and to our own economic prospects, has become a critical factor in our foreign policy. Not only must the United States work closely with developing countries to deal with regional threats to global stability, but we must also have their constructive participation in dealing with a broad spectrum of emerging global issues—nuclear non-proliferation, world hunger and population growth, trade, natural resource development and environmental concerns, energy, and human rights. Taken together, U.S. foreign policy and our development assistance must address these and other interrelated global concerns.

During the past year our concern with international respect for human rights has been established as a central theme of both foreign policy and development assistance. Equity considerations have been given increasing prominence in economic assistance programs, and our focus on basic human needs has evolved more fully.

We have also ~~taken measures~~ to increase the impact and efficiency of our assistance. The President significantly strengthened the Development Coordination Committee in 1978, to improve both the formulation of development assistance policy and the coordination of the respective programs. The President also began a review of organizational options to further improve the effectiveness of our assistance effort.

As we have implemented the early foreign assistance decisions of the Carter Administration, however, we have also looked beyond to the issues of coming years. This report reviews what has been done and discusses those issues which will be occupying our attention in the years ahead. It builds from several important concepts.

*Interdependence and Global Issues*

The reality of an interdependent world in which the economic and political prospects of the developed and developing countries are thoroughly bound together is now broadly accepted.

In traditional economic terms, one-third of our exports go to the developing countries—more than to the European Economic Community, Japan and the Communist countries combined. Half of U.S. direct overseas investment is in LDCs and almost 40 percent of our direct foreign investment earnings come from them. Our dependence on the developing countries for raw materials and markets was made painfully clear to us by the oil crisis of 1973; but, aside from petroleum, the United States imports from the LDCs 100 percent of the natural rubber, over 90 percent of the bauxite and over 80 percent of the manganese which it uses. These statistics alone provide a strong impetus to insure that development considerations are effectively factored into all areas of our international economic policy. Similarly, the overwhelming importance of strong developed country economies for the economic prospects of the developing countries has been underscored, particularly as rising inflation and slower growth rates in the former have constrained economic growth in the latter.

In international discussions between developed and developing countries on economic issues, however, these new realities have yet to be fully reflected. The nature of the issues being framed—and perhaps the process by which they are being addressed—may be constraining progress in the North-South dialogue. The problem may lie with the perception that "dialogue" is inherently a confrontation between two parties or distinct and unified blocs. In fact, we should have a community of nations pursuing mutually acceptable and advantageous solutions to problems of joint concern. Population, food, health, the environment, energy, pollution—the opportunity for richer lives for all—are challenges which can only be met through joint undertaking.

We do not face a zero-sum standoff, in which one nation or group can gain only at the expense of another. Rather, all benefit to the extent we can achieve equitable solutions to problems facing both developed and developing countries. As the United States and other nations formulate their approaches to these development issues, each must define its interests in the long term and take into account others' perspectives and objectives.

*The Evolving Concept of Basic Human Needs*

Support of the basic human needs development strategy is central to the development assistance policy of the Carter Administration. It reflects the Administration's concern that foreign assistance affect the lives of the poor people of recipient countries—in economic terms, the manpower base. It therefore emphasizes the participation of the poor in the benefits of economic development.

But for this development strategy to be meaningful and realistic, there must be growth. The equal emphasis on growth and equity implied by a basic human needs strategy has not always been sufficiently understood or communicated, either within this government or internationally. Even today, some continue to see basic needs as an overwhelming emphasis on immediately demonstrable impact for small target groups. Little wonder that recipient countries have at times suspected an attempt to keep them non-industrialized.

In fact, a basic needs strategy is neither anti-growth nor anti-industrialization. It does favor patterns of growth and industrialization which focus on development of the human resource, both as a means of achieving growth and as an end in itself. It emphasizes growth which encourages broad participation in development and the equitable sharing of the benefits, and which serves and develops the human resource, using technology appropriate to that end.

In economic terms, a basic human needs strategy does not focus only on provision of goods and services—the supply-side of the equation. While it holds that products and services basic to survival must be available, it also acknowledges the importance of the demand side: without growth, neither the employment opportunities needed to provide financial access to basic goods nor the tax base needed to maintain basic services, can be sustained. Employment generation is a vital element of the basic needs strategy.

Basic human needs is also an integral part of this Administration's focus on human rights. This is reflected in human rights legislation, which allows assistance programs directly benefiting the needy to continue in countries whose governments do not meet international standards for protection of human rights. A country which does not provide for basic rights is unlikely to be committed to a basic needs development strategy, but we do not wish to deprive specific groups of poor people of foreign economic assistance because their human rights are being violated by their government.

*Flexible Programming*

In 1978, we increasingly realized the importance of flexibility in assisting a broad range of developing countries—each with its distinct economic situation and assistance requirements—in their efforts to develop. The LDCs have varying needs reflecting their particular strengths and weaknesses, their resources, and their stages of growth. The economic prospects of individual developing countries can be measured only in general terms. Statistical uncertainties, variations in relative sector performance, strengths and weaknesses masked by aggregate statistics require a great measure of flexibility in interpretation. Distinctions between groups of countries on the basis of per capita income, for example, may be useful for presentational purposes, but they can restrict consideration of other important factors when rigidly applied to the programming process.

Similarly, applying universal requirements that projects impact directly on particular target groups can limit our ability to adequately support a basic needs strategy.

When we are sure that a country shares our commitment to basic needs—when development planning and policies are well directed at growth with equity—relatively fast-disbursing assistance or sector lending may be the most efficient means of pursuing a basic human needs strategy. Basic human needs, as the words imply, is primarily concerned with results, with who benefits and how. Concern with the style of individual inputs, whether large projects and programs aimed at broad target groups or small-scale programs for groups within individual communities, is secondary.

Also, we must be able to devise new approaches and programs as the need arises. In recognition of the growing importance of science and technology for LDC development, the President announced in March 1978, at Caracas, that a foundation for scientific and technological cooperation would be established. The institution would cooperate with developing countries in enhancing their scientific and technological knowledge and skills in order to apply these to problems of mutual concern such as energy, natural resource development, and environmental protection.

### *Coordination and the Complementarity of Development Efforts*

Within the U.S. Government, various agencies share responsibilities for carrying out our assistance effort through distinct programs and with varying emphases. Still other agencies, which do not have foreign assistance programs, have important inputs into aid policy. Integration of these activities within a coherent overall policy is a continuing process, and the continuing task of the Development Coordination Committee (DCC).

Congress recognized this need in 1973 when it created the DCC. Although it was largely inactive from its actual establishment in 1975 until the arrival of the Carter Administration, the DCC has been strengthened considerably since that time.

First, the Chairman has been named the principal advisor to the President and Secretary of State on development programs and policy.

Second, he has been instructed to prepare annually a Policy Statement to provide general budget and policy guidance for all assistance programs.

Third, he is to be the Administration's chief spokesman on all assistance programs before the Congress.

The DCC itself has been given new and extensive coordinating responsibilities. Subcommittees on Multilateral Affairs, Food Aid, Bilateral Assistance, International Organizations, Public Affairs, Legislative Affairs, and International Health have been formed. Each reviews programs and policies within its area and raises any unresolved issues to the full DCC.

In addition, the DCC staff produces papers on key policy topics—for example, on the evolution of the basic human needs policy and on policy toward middle income countries—for discussion and decision by DCC members.

Finally, the DCC is developing multiyear country strategies for key countries. This process involves a comprehensive staff report prepared by an interagency working group, an issue-oriented summary report for discussion by DCC members, and subsequent approval of an overall country strategy.

Improved coordination is not a matter of concern only within our own government, however. Through the Development Assistance Committee (DAC), through Consultative Groups, through the International Monetary Fund-World Bank Development Committee, and through bilateral discussions with other donors—all with increasing involvement of recipient countries—our programs are being made more effective and more efficient, as well as more relevant to our objectives and the needs of others.

*Development Issues: 1978*

The next two chapters of this report focus on the role of the developing countries in the world economy and the relationship between human rights and basic human needs. They set the stage for the detailed discussions of our assistance programs which follow. Subsequent chapters examine our respective bilateral and multilateral programs and are, in turn, followed by discussions of our activities in various sectors and areas. A penultimate chapter discusses the importance of our international economic policy to the prospects of the developing nations. The final chapter attempts to develop some fundamental questions on which our policy attention will be focused in the coming years.

# CHAPTER II

## The Developing Countries and the World Economy

The links forged between the U.S. economy and the economies of Europe and Japan in the post-World War II period have led to a relationship of economic interdependence among developed countries which is recognized and accepted as a matter of course. There is less general recognition, however, that today the economies of the less developed countries (LDCs) are also integrated more closely than ever with the economies of the developed world.

Economic events of the past few years have continued to underline growing interdependence of rich and poor countries. The slower growth rates of the LDCs are related to those of industrial countries. African countries, for example, have had slower growth rates since their principal trade is with slower-growing Europe. A large part of U.S. trade—25 percent of combined exports and non-fuel imports—is with the LDCs. Their import demand helped cushion the decline the U.S. economy faced in 1974-75, and their exports helped dampen U.S. inflation during the subsequent recovery. That growth in developing countries can directly affect growth in developed countries is shown by research using a computer model of the world economy. A study, done at the University of Pennsylvania, suggests that an increase of three percentage points in the growth rates of the oil-importing developing countries—through trade, investment, and development assistance—could result in an increase of one percentage point in the growth rates of members of the Organization for Economic Cooperation and Development. Because of the substantial increment in trade, investment and financial flows required to bring about a three percentage point rise in LDC output, this benefit is more important in the long than short term, and it does illustrate another aspect of interdependence—that growing economies in either the developing or developed group help one another. This long-range potential benefit of LDCs' growth to the U.S. economy is especially significant if we remember that, as of now, the combined U.S. exports to developing countries already exceed our combined exports to the European Community, the Communist countries and Japan.

*Economic Status of the Developing Countries*

The crises of 1973 and 1974—a worldwide coincidence of inflation, poor crops and soaring grain prices and the rise in petroleum prices—are now behind us. Yet, because of these shocks, the world has become different in many ways. 1977 and 1978 were normal to good years for most developing countries with regard to gross national product growth, agricultural production and trade. And there is some evidence—albeit still controversial—that population growth, a matter of great concern for many years, may be moderating.

The developed countries have, typically, emerged with a pattern of slower economic growth and continuing inflation. The annual average growth rate of these countries for 1974-77 was less than three and one-half percent, compared to more than ten percent in the five preceding years. Only the United States and Japan have had growth rates sufficient to absorb new entrants to their labor forces; only Germany has moved back to its pre-1973 annual inflation rate. The post-1973 inflation has not brought with it the customary growth in import demand, probably because the shift from fixed to floating exchange rates has prevented progressive overvaluation of inflated currencies. Developed country imports grew only five percent in volume in 1977, a little more than half their annual average growth in the decade preceding 1973.

Those developing countries which are not members of the Organization of Petroleum Exporting Countries have also been unable to match their pre-1973 growth rates, although their growth rates have been higher and more stable than those of the developed countries. Growing steadily at close to five percent since 1973 (4.9 percent in 1977), they did not as a group experience either as much recession in 1974 or as much expansion in 1976 as the developed countries. All LDCs did not, however, fare equally; there were marked differences in regional performance. Latin America, which has had to give priority to reducing inflation, and Africa, which has experienced a number of political and economic setbacks, have both had drastically reduced growth rates, in some years to less than the rate of growth of their regional populations. Countries of the Indian Ocean littoral have done very well in comparison to their pre-1973 performance—well enough, in fact, to put Asian countries ahead of their pre-crisis growth rates.

## TABLE 1

**Non-OPEC LDCs**
**Changes in Real GDP, 1967-1977**
(percent)

| | Annual Average 1967-72 | 1973 | 1974 | 1975 | 1976 | 1977 |
|---|---|---|---|---|---|---|
| Africa | 5.0 | 2.2 | 5.6 | 2.3 | 4.2 | 2.2 |
| Asia | 4.8 | 7.9 | 2.7 | 6.1 | 5.8 | 6.4 |
| Latin America | 6.8 | 8.1 | 7.7 | 2.6 | 4.5 | 4.3 |
| Middle East | 8.8 | 4.8 | −1.0 | 8.4 | 2.1 | 6.7 |
| All Non-OPEC LDCs | 6.1 | 7.3 | 5.3 | 4.1 | 4.8 | 4.9 |

SOURCE: IMF

By and large, individual oil importing developing countries have come through the adjustments to the 1973-74 crises in the same relative position as before. High growth countries still maintain high growth and countries with low growth records continue to have them. There are exceptions, however: India seems to have moved to a higher growth path and Brazil to a lower one.

The non-OPEC LDCs, like all oil importers, will go through an adjustment process again in 1979, given the announced increases in OPEC prices. The adjustment could prove more difficult than in 1974. The 1974 adjustment was eased by the rapid growth in OPEC assistance and by excess liquidity in international financial markets that made possible increased borrowing from private banks. OPEC aid has now tapered off somewhat, and private banks may now be less willing to extend loans. On the other hand, the growth in oil importing countries' foreign exchange reserves provides a welcome cushion, and these countries as a group should be able to achieve GDP growth on the order of 5 percent in 1979.

The impact of lower growth since 1973 may be tempered very slightly by a decline in population growth rates. The U.S. Bureau of Census in a recently released study shows a decline in the world's population growth of one-tenth of one percent in the 1970s—from 2 percent to 1.9 percent—with an accelerated decline in the past two or three years. Since 1975 developed countries, whose population growth rates had begun to decline in the early 1970s, dropped a further two-tenths of a percentage point, from 0.9 percent to 0.7 percent, while developing countries' growth rates fell from 2.4 percent to 2.3 percent. If this trend continues, there will be far-reaching effects both on economic development in general and on the way population programs are carried out in the future.

Food production continues to outpace population growth in all countries except those in the lowest income group ($295 or less 1977 per capita GNP). Within this poorest group—where on the average per capita food production in 1974-76 was only 96 percent of production a decade earlier—the countries of the Indian subcontinent (excluding Bangladesh) form an important exception. India is producing 7 percent more food per capita and Pakistan 14 percent. Indonesia, another exception, produced 17 percent more food per capita in 1974-76 than a decade earlier.

Post-1973 inflation rates follow the pattern for GNP-growth rates—countries generally have resumed their relative positions on both the growth and inflation rate scales. The oil importing developing countries are inflating at over thirty percent per annum—twice the rate of inflation in the oil producing countries, almost quadruple the rate in developed countries and treble their own experience before 1973. Yet oil importing developing countries in Asia, which averaged the same rate of inflation as the developed countries prior to 1973, do the same again now. Latin America, always the most rapid inflator, experienced an average inflation rate of 52 percent in 1977, down from 63 percent the year before. The World Bank fears the inflation trend may be rising; of the 88 non-OPEC LDCs with consumer price indexes, 50 showed higher price increases in 1977 than in the previous year.

Commodity prices rose in 1977, resulting in a small improvement in the terms of trade of oil importing LDCs. Their trade balances also improved. Besides the obvious direct effect on these countries' balance of payments of the rise in the cost of their food and petroleum imports, the downward slide in the value of reserve currencies, to which most LDCs have tied their own exchange rates, has helped the competitiveness of their exports even while reducing the value of their reserve holdings. Imports have been held to a slower rate of growth; current account deficits were cut $3 billion in 1977 and reserves rose back to the reserves/import ratio that had prevailed before 1973.

There is evidence that import restrictions are easing, particularly in poor countries where they are common, and imports are expected to resume their pre-1973 growth. However, the poorest countries, excepting India, have not had the same experience as the better-off LDCs in rebuilding their reserve levels and will not be able to increase their imports unless new earnings are found or more aid furnished.

The combined current account deficit of oil importing LDCs was reduced from $34 billion in 1975 to $23 billion in 1977, but this total remains large. The reserve growth was accomplished by continuing the high borrowing rates of the crisis years into 1976 and 1977. The combined outstanding LDC debt is not significantly higher in relation to exports than two to three years ago, but debt service in relation to exports is higher, reflecting a continuation of shorter-term borrowing, mainly by middle-income countries. The increase in private lending as a financing source has resulted in more rapid debt growth in a relatively small list of middle and higher income developing countries. In 1973, 21 percent of total medium and long-term public debt of 79 significant developing countries was owed to private lenders. This debt rose to 49 percent in 1976.[1] The combined medium- and long-term debt of countries exceeding $580 per capita income in 1977 grew from 53 percent of the LDC total to 57 percent, while the debt of the poorest LDCs—those with per capita GNP less than $295 per capita—fell from 38 percent to 32 percent. Three higher and middle income countries, Mexico, Brazil, and Korea, had one-third of the total debt outstanding for the entire group (Table 3 of Cit).

[1] See *Annual Foreign Assistance Report 1978 Part Five: Debt Servicing Capacities of U.S. Assisted Less Developed Countries: Debt Relief and Net Aid Flows.*

*North-South Relations*

The issues and tone of the North-South debate on international development hardened following the October 1973 oil embargo and its well-known consequences for the world economy. The Sixth Special Session of the United Nations General Assembly (UNGA) in May 1974 adopted a Declaration and Program of Actions on the Establishment of a New International Economic Order (NIEO) which was supplemented by a Charter of Economic Rights and Duties of States (CERDS) in December 1974. A number of provisions in these resolutions were not accepted by the United States and other developed countries, and the year 1974 stands out as the high point in North-South acrimony and confrontation.

The Seventh Special Session in September 1975 was conducted in a more cooperative spirit, although the limited but promising consensus proved to be more a commitment to a dialogue than to action.

Following the Conference on International Economic Cooperation (CIEC) which ended in June 1977, it was agreed that the UNGA Committee of the Whole (COW) would monitor CIEC commitments and serve as a new UN organ for discussing North-South issues.

The COW has held two sessions in 1978. In May, the principal agenda items were a discussion of global economic problems and the issue of transfer of real resources. Discussions were useful, but the Committee was unable to resolve basic differences over the drafting of conclusions on the transfer of real resources. In September, the COW was to reach agreed conclusions on the transfer of resources and to take up food and agriculture, industrialization and the problems of the least developed countries. However, this work was interrupted by disagreements over the committees' mandate. The UNGA adopted a resolution in October declaring that the COW would negotiate outstanding issues and work in the committee was scheduled to resume in January 1979.

Work continued, however, in other forums on several key economic cooperation issues:

—At the UN Conference on Trade and Development (UNCTAD) Ministerial meeting on debt in March 1978, agreement was reached on basic concepts to guide international actions for LDCs which experience debt and balance of payments problems. In addition, the donor countries agreed to adjust retroactively the terms of outstanding official loans to certain of the poorer LDCs.

—The Multilateral Trade Negotiations (MTN) have entered their concluding phase, and it is expected that the President will be able to present a trade agreement to the Congress during 1979.

—On commodity issues, the Common Fund negotiating conference resumed in November 1978. Although the United States agreed to the establishment of a Common Fund, and progress was made in resolving some issues, wide differences still exist between the developed countries and the developing countries concerning the appropriate responsibilities and financing arrangements for the Fund. The UNCTAD Secretary General will reconvene the conference March 1979, prior to the UNCTAD V meeting in Manila in May 1979.

—The International Sugar Agreement entered into force provisionally on January 1, 1978, although Congressional consideration of U.S. ratification of the Agreement was postponed until agreement is reached on a support program for domestic sugar producers.

—Consultations and negotiations concerning commodities not covered yet by International Commodity Agreements—rubber, copper, jute and cotton—were held in 1978. Also, proposals were received from Germany and from the Association of Southeast Asian Nations (ASEAN) for new arrangements to reduce the fluctuations in LDCs' primary commodity export earnings. The IMF is examining those proposals as well as means of increasing the usefulness of its Compensatory Financing Facility.

—Little progress has been made in the Law of the Sea Conference. A key issue which remains to be resolved concerns mineral exploitation in the international deep sea bed area and the creation and powers of an International Sea Bed Authority. Progress was made at the May 1978 session when the developed countries expressed a willingness to accept an International Sea Bed Authority with some licensing powers while the developing countries agreed to giving private corporations access to deep sea bed mining.

Thus, 1978 has been a year of limited progress in the North-South dialogue. The developing countries will continue the dialogue at the UNCTAD V Meeting in Manila. They want greater transfers of resources and a stronger voice in the international economic system.

Progress in the North-South dialogue, however, depends upon reconciling differences in economic interest within the two groups as well as between them. Developing countries differ in the political and economic importance that they attach to the individual elements of the new economic order that they seek, and developed countries differ in their attitudes toward various elements of the proposals. The LDCs' balancing of their individual priorities and interests against the benefits of Third World solidarity will continue to affect the pace and progress of North-South discussions in the next few years.

The North-South dialogue, particularly in the area of trade and the MTN, may hasten the pace at which the U.S. and other developed countries change to accommodate changing world production patterns. As the LDCs develop more labor-intensive industries, pressures must arise for a decline in these same industries in the developed countries, the latter shifting to areas in which they maintain a comparative advantage. How the United States and other developed countries respond to these pressures, through increasing protectionism or through positive adjustment measures—retraining labor forces and providing adjustment allowances— will be a major issue for the coming decade. This is discussed in more detail in Chapter X.

*Needs and Trends in Economic Assistance*

It is difficult to convey the state of poverty in which most people in the developing countries live. The developing countries contain 75 percent of the world's population outside the Soviet Union, Eastern Europe and China, and share in only 22 percent of the world's output. The poorest LDCs—those with $295 per capita GNP or less in 1977—have 43 percent of the world's population and they share in only 3.6 percent of the world's GNP. Of the approximately two billion people in LDCs, 770 million or 37 percent were judged to be living in absolute poverty in 1975, using the World Bank's definition; in the poorest countries, more than half—630 million—lived below the absolute poverty line. Average life expectancy at birth in poor countries—those with $580 per capita GNP or less—is 47 years, as opposed to 64 years in middle income countries and 72 years in industrialized countries. Only one-fourth of the populaton of the poorest countries have access to safe drinking water. Infant mortality in the poorest countries is eight times what it is in the most affluent—122 per thousand infants under the age of one, compared to 15 per thousand. Agriculture furnishes employment for 85 percent of the labor force in the poorest LDCs compared to 11 percent in the industrialized countries (4 percent in the U.S.), but it produces less than half these countries' GNP. Only 26 percent of the adult population in poor countries is literate (23 percent in the poorest). The average poor country is, thus, predominantly rural and agricultural, unable to provide adequate health protection, food or other basic needs for a large portion of its population—in the poorest countries, this means for the majority.

The statistics, however, tell only part of the story. The toll in human suffering, in hunger and debilitating disease, in environmental degradation due to agricultural practices that result in widespread erosion and salination of productive land, cannot be fully described in statistical terms. Most are correctible through the spread of knowledge and skills and the addition of physical capital. New job opportunities can be recited in numbers, but the value of a new sense of command over one's future, or a new perception by the poor of their ability to improve their own and their children's prospects, are benefits beyond calculation.

The greatest need for assistance is among the poorest group of countries. In general these are the countries at the lowest stage of development, with the least access to private sources of capital, the lowest domestic savings rates, and the poorest growth records.

Not all, however, fulfill the stereotype; Sri Lanka, a member of the poorest group, has an adult literacy rate of 78 percent and a life expectancy of 68 years. Kenya, also among the poorest, has a relatively low infant mortality rate. Half of Benin's labor force and more than one-third of Indonesia's work outside of agriculture. Indonesia is well-endowed with natural resources including petroleum, while South Korea is a rapidly growing middle-income country with a generally poor natural resource endowment. Some countries, even poor ones, have strong balance-of-payments positions and are able to command external capital from nongovernmental sources. Thus, we must be careful in aggregating groups of countries by per capita income or in using rigid criteria for programming. Individual countries have individual requirements; our need is for flexibility—in designing programs and in using various channels—to assist in meeting specific country requirements.

Current U.S. assistance policy concentrates development aid on programs that directly affect the poor in developing countries, and an increasing percentage of U.S. bilateral assistance is being directed toward the poor countries. We must remain prepared, however, to respond to opportunities to promote development and assist the poor whenever need is determined. Our ability to do this is currently limited by inadequate resources. One of the most disturbing trends that has emerged from the world economic crises has been the leveling off in nominal terms—and decline in real terms—of donor assistance.

Worldwide official development assistance had been growing steadily in the first half of this decade, due principally to the increase in aid budgets of bilateral donors other than the United States and in the multilateral development banks. There was a quantum jump in assistance in 1974 and 1975 when OPEC countries joined the ranks of donors. In the three years 1975-77, however, assistance from all sources has held to a plateau in nominal terms.

**TABLE 2**

**Official Development Assistance (ODA) Flows by Major Source**
(disbursements, $ billions)

| | 1975 | 1976 | 1977[a] |
|---|---|---|---|
| DAC Bilateral | 9.6 | 9.4 | 10.1 |
| Multilateral agencies | 3.7 | 3.5 | 4.0 |
| OPEC bilateral | 4.9 | 4.5 | 3.6 |
| Other | 0.7 | 0.6 | 0.6 |
| Total | 18.9 | 18.0 | 18.3 |

[a] Preliminary

SOURCE: Development Assistance Committee (DAC)

The U.S. share of ODA as a percentage of GNP is among the lowest in the donor community and has continued to decline, from .25 percent in 1976 to .22 percent of GNP in 1977. The United States now ranks only 13th out of seventeen DAC donors in ODA as a percentage of GNP.

The share of the poorest in ODA flows, though growing, is not yet proportionately large. The DAC reports that between 1969-71 and 1975-77 the share of ODA going to the UN list of the Least Developed Countries (LLDCs) rose from 9.4 percent to 19.7 percent, offset somewhat by a decline in share of other donor countries. The poor countries as a whole, defined by the DAC as those with less than $400 per capita income in 1976, received 61.1 percent of ODA in 1975-77, about the same as their 63.8 percent of total LDC population. Thus, their aid per capita, $7.80, was close to the average for all LDCs, $8.00.

The need for shifting more concessionary resources to the poorest is shown more vividly when total resource flows from developed to developing are taken into account. Including hard lending from governments and multilateral institutions, private bank lending, and concessionary assistance, the total flows were $55.4 billion in 1977. Of the total, only about 8 percent went to LLDCs, 23 percent to other poor countries (DAC definition), 25 percent to countries between $400 and $1000 per capita income, and 44 percent to countries with per capita incomes in excess of $1000.

The trends in both ODA and in total flows by income group look better when shown as a percentage of GNP, a more meaningful comparison than per capita flow data, but still indicate a need for greater effort toward poor countries. These again, as furnished by the DAC on its income groupings, were:

**TABLE 3**

**Trends in Net Resource Flows to Non-oil Developing Countries by Income Groups as a Percentage of GNP**

| | Average 1969-1971 | Average 1975-1977 |
|---|---|---|
| *ODA* | | |
| 0-$400 per capita | 2.6 | 4.6 |
| (of which, LLDCs) | (2.8) | (9.2) |
| $401-$1000 per capita | 1.7 | 1.9 |
| $1001-$2500 per capita | 0.5 | 0.4 |
| Over $2500 per capita | 0.3 | 0.7 |
| *Total Resources Flows* | | |
| 0-$400 per capita | 3.1 | 6.7 |
| (of which, LLDCs) | (3.2) | (10.6) |
| $401-$1000 per capita | 3.1 | 6.0 |
| $1001-$2500 per capita | 1.8 | 3.4 |
| Over $2500 per capita | 1.5 | 4.5 |

SOURCE: DAC

The above discussion deals only with the magnitude of assistance efforts and not with their quality and character. How assistance programs are shaped has become a question of increasing urgency as assistance efforts move more towards assistance to the poorest countries, many if not most of which are at initial stages of development. Historically, in most countries during their economic development, income distribution has followed a path resembling an inverted U, becoming more skewed in the initial stage of development and less skewed in final stages. It is possible to direct and plan development resources to avoid the problems of income disparity that past development, by design or by accident, has wrought. Indeed, because of the nature of some planned development efforts, some higher and middle-income countries are finding it difficult to surmount the U's hump, providing more equitable income shares to their citizens now that this is possible. Providing equitable distribution of growth is the essence of the basic human needs development strategy.

Such a strategy has been formulated over the past few years by the major donors and the less-developed countries. This strategy is based on meeting the human needs and human rights of people throughout the world. It is set in the context of growth, and designed to meet the development priorities of each country. A discussion of this strategy, the perceptions of those involved, the progress made and the issues which remain to be resolved are presented in succeeding chapters.

# CHAPTER III

## Human Rights and Basic Human Needs

The United States' foreign assistance programs are based on the complementary and mutually supportive policies of human rights and basic human needs. Both reflect deep and strongly held beliefs which derive from our own American traditions, but which also are institutionalized in a variety of international declarations and covenants embraced over the past three decades by the world community: a respect for the inherent value and dignity of the individual, and a desire that all have access to the resources and opportunities which make possible a more fulfilling life.

*Human Rights*

A principal goal of the Carter Administration's foreign policy has been to encourage increased respect for human rights. In his Inaugural Address, President Carter declared:

> *Because we are free, we can never be indifferent to the fate of freedom elsewhere. Our moral sense dictates a clear-cut preference for those societies which share with us an abiding respect for individual human rights.*

Speaking recently in commemoration of the thirtieth anniversary of the Universal Declaration of Human Rights, President Carter reaffirmed that "human rights is the soul of our foreign policy."

The pursuit of international human rights draws on the U.S. domestic experience and interests, but originates in an international context. The United States is a signatory of the United Nations Charter and the Universal Declaration of Human Rights. These documents divide the rights of mankind into three categories:

—First, rights of the person: the right to be free from such practices as torture, arbitrary arrest or imprisonment, and cruel, inhuman or degrading treatment for punishment.

—Second, social and economic rights: the right to such basic human needs as food, shelter, health care and education. Our policy also recognizes that fulfillment of these rights depends, in part, on the stage of a nation's economic development. But these rights can also be violated by indifference to the plight of the poor or through corrupt practices which divert resources at the expense of the poor.

—Third, civil and political rights: the right to enjoy such liberties as freedom of thought, religion, assembly, speech, freedom of the press, freedom of movement within and outside one's own country and freedom to participate in government.

While our human rights policy is global in its goals, it is conducted pragmatically, with sensitivity to the differing historical and cultural characteristics of other countries, and with regard for other elements of an overall U.S. foreign policy.

Over the past year, the Administration has continued to integrate human rights more effectively and intensively as a central element in U.S. foreign assistance policy. This effort has involved taking "positive" as well as "negative" steps in our policies and programs.

Positively, U.S. foreign assistance programs are a strong affirmation of our commitment to enhance economic and social rights throughout the world. They assist people in developing nations to pursue productive lives of dignity and hope. Those societies most dedicated to improving the economic and social well-being of their people are also more apt to pursue greater respect for civil and political rights. In addition to increasing funding levels for countries with strong human rights records, the United States has paid greater attention during the past year to using our various assistance instruments to encourage greater civil and political rights. To date this has included (1) encouraging and supporting contact among those in the developed and developing countries who share an interest in problems of human rights in the context of economic development; (2) disseminating information about development successes where human rights are respected and offering alternatives to those governments which may resort to repressive measures in their development efforts, and (3) encouraging attention to the relationship between freedom of association and organization and the basic needs approach to economic development.

*Basic Human Needs*

U.S. support of basic human needs development strategies evolved from U.S. experience with economic development programs during the past 30 years.

Early in the period, many development strategists believed that the single critical factor needed to improve the economies of developing countries was growth. Once the proper stimulus was applied, growth could become a self-perpetuating force, generating increased income, investment, employment and production. Following this strategy, some countries experienced great success in the 1960s and early 1970s in achieving improved growth rates. Others, overwhelmed by the staggering problems of coping with the needs of burgeoning populations, found it impossible to generate the economic momentum needed to spark sustained growth. Experience in the last 25 years shows, however, that the poorest people of the Third World received few of the benefits of growth strategies because they lacked the necessary access to the assets which can generate income: land, capital, employment.

The result of these experiences led to an increased understanding of the importance of stressing equity as well as growth in the development process. Basic human needs is a policy and a strategy—it is the objective of development. It requires that an equitable pattern of growth be vigorously pursued to increase the capacity of people in the less-developed countries to meet their own basic needs. It combines more traditional development concerns such as the rate of economic growth, production and income, with other factors such as employment creation, income distribution, availability and accessibility of essential goods and services and broad participation in the development process.

Thus, basic human needs is a growth strategy which emphasizes the beneficiaries of economic growth and stresses broadly based increases in productivity of human resources. It rejects former assumptions that building economic infrastructure alone will produce benefits which will ultimately reach the poorest in society, but this does not mean that efforts to improve and expand infrastructure contradict basic needs goals. For example, an infrastructure project that demonstrably benefits the poor can be an important element of a basic needs approach.

There are no universally applicable means for satisfying basic human needs. A basic needs development approach is part of a general development strategy which recognizes the diversity of each country's problems, needs and capacities and which is formulated by the developing countries in response to their particular economic as well as political and social circumstances. Within this context, however, certain objectives should be considered in implementing this development strategy. Investments must foster a pattern of growth that can be increasingly self-sustaining, providing the systems, the institutions, the products and services which reach the poor majorities and which include them in the growth process itself. No sector is excluded in a basic needs development strategy. It is essential, however, that investment in any sector be designed to generate this pattern of growth which contributes to basic needs objectives, which makes efficient use of available resources, and which maximizes the effectiveness of the total development effort.

*Implications*

What are the implications of these two policies for our foreign assistance program?

First, by applying the basic human needs strategy in a flexible fashion, the United States is able to respond more effectively to the differing needs of various developing countries, rather than imposing rigid forms of assistance on all countries. Because this approach is concerned with sustainable improvements in living standards among the poor, its impact in some cases will be long term rather than immediate, indirect rather than direct, and non-exclusive rather than exclusive. Foreign assistance need not focus only on direct impact activities. The key conditions are that the impact on the poor be significant and that developing countries follow a development plan which is internally consistent, which reflects the priorities of their population, which can be sustained by local institutions and which makes maximum use of available resources.

Similarly, our human rights policy requires considerable flexibility in responding to abuses of international standards in different countries. As Secretary Vance noted: "If we are determined to act, the means available range from quiet diplomacy in its many forms through public pronouncements to withholding of assistance."

The application of basic human needs and human rights policies will have different implications for each of the major components of the U.S. bilateral and multilateral foreign assistance programs. These are discussed in succeeding chapters.

*International Focus*

During the past two years, the U.S. policy of pursuing basic human needs and human rights has received significant international attention. Both developed and developing countries have raised and discussed the key elements and implications of these issues. The United States has actively sought to raise these concerns in the international arena and to reach agreement with other nations and organizations on their importance.

Following a reappraisal of foreign assistance policy in 1977, the President directed that the United States follow a foreign assistance strategy designed to meet the basic human needs of poor people, and increasingly take into account in the allocation of its assistance funds the degree to which recipient governments were making sincere efforts to increase respect for the human rights of their people.

The application of these twin policies—human rights and basic human needs—has in some cases required a significant shift in the design, planning, and implementation of programs. These changes have caused considerable questioning and controversy, in the United States, in the less developed countries, and in some international fora. As a result, the Administration set as an important goal in 1978, expanding the scope and quality of the dialogue on these policies, with the expectation that greater understanding of their purpose and goals would foster broader international acceptance. The policies of human needs and human rights which have had a dramatic impact on the planning and implementation of U.S. foreign assistance programs, have also received some encouraging support from the international community, both the developed and the developing countries.

*LDC Views*

During the past two years, many developing nations have charged the Administration with inconsistency in the application of its human rights policy. Some of these criticisms arise from perceptions of differing U.S. responses to similar human rights violations in different countries. U.S. policy responses have taken into consideration the capacity of nations to respond, our own national interests, and our ability to influence different countries.

Other nations have argued that U.S. policy places too great an emphasis on measuring human rights violations in political terms, and ignores the reality of different societal priorities in the developing world. The compelling need in the Third World, they argue, is that of economic and social development, and they point with suspicion to unfulfilled pledges of greater U.S. assistance.

LDC reaction to the basic needs development strategy has been mixed. While the international dialogue has been marked by controversy, misunderstandings, and at times sharp disagreement, there have been some indications of growing support:

—The Program of Action adopted at the International Labour Organization's 1976 World Employment Conference emphasizes that the concept of basic needs "should be placed within a context of national independence, the dignity of individuals and peoples, and their freedom to chart their destiny without hindrance."

—In November 1978, the Consultative Committee of the Colombo Plan representing developing countries in the Asian region and donors discussed basic human needs as a special topic of their agenda. They affirmed that:

> *. . . basic human needs is not a rejection of the need for economic growth, but rather a sharper focus on achieving patterns of growth that increase the capacity of people to provide for their own basic needs. Thus, the stress on basic human needs is a natural extension of previous development efforts of member countries aimed at achieving higher levels of employment and output, better health, more adequate shelter, improved education and nutrition, reduced population growth, and overall adequate living standards for all segments of their population.*

—In its March 1978 meeting, the Economic and Social Commission for Asia and the Pacific (ESCAP) adopted a resolution on Economic and Social Development for the 1980s which contains the first reference in a UN development forum to the desirability of a basic needs approach. The statement "affirms that the input from the ESCAP region into preparations for the new International Development Strategy should be based on the necessity for economic growth with social justice, *inter alia*, a continuing effort to eliminate poverty with the provision of basic needs to improve the quality of life, to achieve a more equitable distribution of income, and to increase participation by the population, especially by the rural poor in the process of development."

But these positive views are not universally shared by developing countries. Some maintain that basic human needs involves unwarranted interference in their internal development policies. Many others share a concern that the basic needs emphasis is a developed country substitute for the increased resource flow and structural changes which comprise the New International Economic Order (NIEO). They believe that by focusing on small projects which tax administrative absorptive capacity, we limit the resources which we can put into assistance while ignoring the enormous foreign exchange requirements.

Some LDCs have been suspicious of the motives of the United States and other donors in shifting signals to promoting basic needs after a development policy spanning two decades which aggressively encouraged developing nations to concentrate on improving growth performance alone. With this traditional attachment to giving the highest priority in economic policy objectives to achieving rapid growth rates, some have been wary of allocating scarce resources to uses they fear will not yield direct and immediate results. Others fear they are being nudged toward financially unsound, welfare-oriented development.

*Donor Views*

U.S. human rights policy has had an enormous impact on the perception of issues which command international attention. As the International League for Human Rights noted last year in its Annual Report:

> *First, within the past year, human rights has for the first time become a subject of national policy debate in many countries. Second, human rights concerns have also been the focus of greater discussion in international organizations. Third, world media attention has focused on international human rights issues to a greater extent than ever before. Fourth, a consciousness of human rights among the peoples of the world has increased significantly. Fifth, there has been an easing of repression in a substantial number of cases.*

The League then went on to state: "A most significant factor has been President Carter's affirmation and advocacy of the United States' commitment to the international protection of human rights and United States' encouragement of other states to undertake a similar commitment."

The basic human needs approach is supported by most major donors although there are differences of degree among those countries which support only fundamental services and those which stress the need for a development framework which encourages growth as well as equity. Several major donors, however, while not openly opposing basic human needs, did not initially support its principles in their own assistance programs and do not favor pressing the approach in negotiations with LDCs.

Late in 1977, members of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation in Development (OECD) issued a statement, "Development Cooperation for Economic Growth and Meeting Basic Human Needs," announcing their desire to "assist developing countries which seek to expand their capabilities for meeting more effectively the basic needs of their people within the context of achieving self-sustaining growth."

The World Bank report for 1978 gives careful attention not only to the need for growth per se, but to the patterns of growth and the need to improve the access of the poor to essential services. The Bank's policy for lending is shifting to include socio-economic programs now acknowledged to be productive investments.

*Trends and Prospects*

Whatever may be the disagreements on the relative emphases of human rights and basic human needs, the goals of all donors and of the developing countries themselves are clear—self-sustaining growth, provision of basic human needs, and strengthened economies which can support and sustain the basic needs of their people. It was perhaps fitting that 1978 ended with a Consultative meeting of Colombo Plan member nations, who in the final report of that meeting agreed that:

> *The basic needs concept is a useful approach to organize enhanced domestic and international efforts for greater economic cooperation among members in order to achieve accelerated growth and distributive justice.*

As President Carter noted in his address to the Indian Parliament last January:

> *. . . human needs are inseparable from human rights, and while civil and political liberties are good in themselves, they are much more useful and much more meaningful in the lives of people to whom physical survival is not a matter of daily anxiety.*
>
> *To have sufficient food to live and to work, to be adequately sheltered and clothed, to live in a healthy environment, and to be healed when sick, to learn and be taught—these rights, too, must be the concern of government. To meet these needs, orderly economic growth is critical. And if the benefits of growth are to reach those whose need is greatest, social justice is critical as well. . . .*

The major foreign assistance policy decisions taken by this Administration reflect this belief.

United States' effort to promote a basic needs policy is now entering a critical phase. The necessary groundwork for successful implementation of the policy has been completed. Misunderstandings about its characteristics and the objectives have been largely resolved. We have reached the time for action.

# CHAPTER IV

## U.S. Bilateral Assistance

The U.S. bilateral assistance effort has several components, administered by different agencies. These include the development assistance programs of the Agency for International Development; supporting assistance under the Economic Support Fund (ESF), allocated by the State Department and administered by AID; the Public Law 480 (PL 480) food aid programs administered by the Departments of Agriculture and State and by AID; the investment guaranty and insurance programs of the Overseas Private Investment Corporation (OPIC); and the Peace Corps volunteer program, located within Action. Under these bilateral programs, the United States in 1978 furnished about $5 billion in loans and grants and insured or guarantied $400 million in private investment and loans for LDCs.

### TABLE 4

**U.S. Bilateral Assistance—FY 1978**
($ millions, commitments)

| | Grant | Loan | Subtotal |
|---|---|---|---|
| Economic Support Fund | 868.7 | 1355.7 | 2224.4 |
| AID Development Assistance | 1006.6* | 386.1 | 1392.7 |
| PL 480 | 459.0 | 811.9 | 1270.9 |
| Peace Corps | 92.8* | — | 92.8 |
| OPIC | — | 5.4 | 5.4 |
| TOTAL | 2427.1 | 2559.1 | 4986.2 |

**Investment Insurance and Guaranties**

| | |
|---|---|
| OPIC | |
| Insurance | 259.8** |
| Loan Guaranties | 12.5 |
| AID | |
| Housing Investment Guaranties | 147.3 |
| Productive Credit Guaranty Program | 0.8 |
| TOTAL | 420.4 |

* includes operating expenses

** This figure represents investment insured. Because of overlapping coverages, the total amount of insurance issued ($682.6 million) is much greater.

*Recent Developments*

Among significant developments in bilateral assistance during the past year:

—There has been further evolution of the basic human needs strategy to emphasize both equity and growth. This recognizes the stake of the poor majority in growth and requires concern with indirect or longer term as well as direct or immediate benefits.

—There has been a notable shift in allocation among sectors. AID financing for the sectors of particular importance for the poor—food and nutrition, education and human resources, family planning and health—rose by 26 percent from $847 million in FY 1977 to $1,068 million in FY 1978, and will increase by another 13 percent to about $1,200 million in FY 1979.

—There has been a similar shift in country allocation from the relatively better off Latin American region to the poorer regions of Asia and Africa. From 1975 to 1978, assistance for Latin America decreased from $428 million to $375 million per year, while assistance to Sub-Saharan Africa rose from $293.2 million to $491 million. AID also resumed development assistance on a large scale to India ($60 million in FY 1978 and $90 million programmed for FY 1979).

—Including the ESF, however, the Near East, particularly Egypt with $953 million and Israel with $792 million, continued to receive the most bilateral assistance.

—The United States has reduced the share of concessional bilateral assistance for middle income countries (MICs), but it maintains its strong interest in their development through the Multilateral Development Banks and the DCC is currently considering a strategy of bilateral development cooperation with them.

—Bilateral development assistance reflects our particular concern for the poorer countries. It provides loans and PL 480 credits on highly concessional terms, and some of the poorest countries now receive all assistance on a grant basis. Congress has recently authorized adjustment of terms on prior loans and reduction of the counterpart contribution below the usual 25 percent minimum. Conversely, as LDCs progress economically, AID phases out grant financing, hardens the terms of loans and increases the portion of the project financed by the recipient country to well above 25 percent.

—To improve the efficiency of administration of foreign assistance, AID decentralized its operations, substantially increasing the authority of its field missions. The portion of AID's U.S. staff serving overseas increased by 16 percent between 1976 and 1978.

—The United States continues to increase emphasis on development under PL 480. Local currencies generated under Title I credits are allocated to development programs. Title II grants are used for nutrition programs. They are used also in development projects where they provide food as compensation to workers. Title III credits offer low income countries with weak agricultural sectors food aid to help cover food needs while the government undertakes the necessary policy and program changes. Local currency proceeds from sale of the food help finance the programs which will enable the country eventually to meet a greater portion of its food needs. Provision for debt forgiveness provides additional incentive for the necessary rural development programs, and food aid commitments of up to five years assure ongoing support of long range programs.

—The Executive Branch and Congress carried out a thorough review of OPIC's programs which culminated in legislation extending OPIC authorities through September 30, 1981. The legislation requires that OPIC give preference to projects in poorer LDCs and, with a few exceptions, avoid projects in LDCs with per capita incomes over $1,000. In addition, OPIC was directed to lend its own capital only for projects sponsored by smaller businesses and cooperatives, to seek to raise their participation to at least 30 percent of insurance guaranty projects, and to increase the preinvestment information and finance services it provides these enterprises.

—The Peace Corps now places greater emphasis on volunteer motivation and living and working with poor people at the grass roots, after emphasizing technical capability and work with host country government agencies during the early 1970s. The Peace Corps is also emphasizing closer collaboration with AID and other donors, including Private Voluntary Organizations (PVOs), in assigning volunteers where they can best promote development.

Other important developments and issues related to specific sectors and functional areas are discussed in other chapters.

*Assistance and Foreign Policy*

The relationship between bilateral foreign assistance and foreign policy has been the subject of much discussion. Principal among current questions are those concerning the role of foreign assistance in furthering human rights policy, in sustaining or improving our relationships with certain LDCs, and in furthering other diplomatic objectives.

In considering these and similar issues, it is important to emphasize at the outset that foreign assistance is an integral part of our foreign policy. Both our foreign policy and our assistance policy seek to improve the economic prospects of the developing countries by promoting growth and equity, and by strengthening their ability to participate in the international economic system.

Multilateral institutions now provide the bulk of assistance to the LDCs. U.S. bilateral assistance now totals $5 billion a year, of which $1.4 billion is development assistance. This compares with a global total for multilateral assistance of over $12 billion—up from less than $2 billion in 1968—with a U.S. contribution (excluding callable capital) of $2 billion in FY 1979.

Bilateral assistance, however, is a uniquely direct and flexible expression of our concern with the developing countries. At any given time, broad U.S. foreign policy concerns in particular countries or situations may call for economic assistance substantially beyond that which could ordinarily be provided by the United States, other donors, or the multilateral institutions on purely development grounds, given the development needs of other LDCs. Security supporting assistance, recently redesignated Economic Support Fund, has been the principal instrument for meeting this need, supplemented on occasion by the versatile PL 480 Title I food aid with its similar flexibility for rapid disbursement.

Also, U.S. bilateral development assistance plays a somewhat unique role in responding quickly to help the LDCs move on developmental problems. This applies to both long-term issues and high priority targets of opportunity. It helps LDCs establish the institutions and systems they need to identify their needs, determine priorities, and execute their programs. It also provides credit and extension services for small farmers, education and basic health services to rural areas, and training to improve basic knowledge and skills. The presence in the field of U.S. AID missions to collaborate closely with the LDCs in project design and implementation is a major factor in this capability.

Bilateral assistance, as an extension of the U.S. national presence, is of special importance in implementing the Administration's human rights policy. It helps LDCs to meet the basic human needs of their people in nutrition, education, health and productive employment. Programs to increase participation of the poor in national development bolster the political as well as economic strength of the participants. Some projects in areas such as legal aid and women's rights bear even more directly on civil rights. More generally our support for the agencies and people serving the poor tends to strengthen their voices within their government for more democratic policies.

Through a basic needs development strategy, the United States thus reinforces its concern with human rights through direct programs. The United States also increases aid to countries which respect human rights and may limit aid to activities directly benefiting the needy in countries whose human rights performance is questionable. The United States may even suspend its assistance in countries where egregious human rights violations could undermine the effectiveness, impact and objectives of our assistance. In these cases, the United States may choose to redirect its resources to other developing countries where our efforts, in concert with those of the national government, will have sustained impact on the lives of the poor. Such drastic decisions, when applied to our bilateral assistance programs, are taken only after considering all relevant factors within each country situation.

More broadly, we are also concerned in country programming and project design with the human rights impact of the total country program as well as the manner in which particular projects can support human rights. Before submission of budget proposals for bilateral economic assistance, the Executive Branch reviews the proposed allocations of these funds among countries to insure that they appropriately reflect U.S. human rights policy.

Further, the bilateral program helps maintain cooperative relationships with individual countries of the Third World. Economic development is the principal concern of these developing countries. To achieve this development, they generally would prefer increased trade opportunities rather than direct aid. This country however, prefers providing development assistance over radical reform of the trading system. Bilateral assistance can be a direct and visible national expression of concern which has substantial symbolic impact. While the limited levels of bilateral development assistance cannot be expected to "buy" cooperation on fundamental issues, it can help establish an atmosphere of development cooperation which may facilitate a positive attitude in other areas.

Some foreign assistance programs serve particular U.S. domestic interests in addition to supporting international development. PL 480 food assistance, for example, helps relieve domestic agricultural surpluses and cultivates export markets. Similarly, foreign investment insurance and guaranty programs help promote a U.S. private sector contribution to development, but are also concerned with facilitating U.S. investment and increasing U.S. exports. In addition to its significant development impact, voluntary foreign service in people-to-people programs helps promote grass roots understanding between the United States and other nations.

It is paradoxical that the bilateral aid program is at once long-term in its need for sustained institution and system-building activities, and immediately available for use in sending diplomatic or other signals on a broad range of non-development issues. Development assistance has been delayed or suspended to further U.S. objectives in such areas as human rights and compensation of expropriated U.S. investors. Many of these actions are required by legislation, others result from Executive Branch efforts to pursue foreign policy goals.

However, with our bilateral development assistance directed primarily at poor people, with projects requiring extended periods for design and disbursement, and with amounts too small to be important at the national level, it is becoming increasingly less useful for advancing shorter-term foreign policy objectives. It remains ideally suited, of course, to achieving our long-term political interests by reinforcing positive LDC development policies and activities.

*Bilateral Assistance to Middle Income Countries*

One major set of questions, arising from the recent emphasis on reaching the poor, concerns whether and how bilateral assistance should be furnished to those developing countries which have progressed sufficiently to be characterized as "Middle Income Countries."

The criteria for "middle income" status have been variously defined by different agencies for different purposes, but the United States uses the World Bank cut-off for eligibility for International Development Association (IDA) funding (annual income of $580 per capita) as the dividing line between poor and middle income countries. So defined, the MIC group includes some 37 countries, ranging from those with per capita incomes as high as Spain and Israel near $3,000, to such relatively poor countries as Jordan and Ivory Coast; and from small countries with relatively limited U.S. interests to large and important countries such as Turkey, Mexico and Brazil.

The basic human needs strategy directs that benefits of development reach poor people and that concessional assistance be directed principally to the poorest countries. This priority has been expressed in the changing allocation of AID development assistance resources, PL 480 food resources, and OPIC insurance and guaranty authority. The percentage of AID Development Assistance to developing countries whose per capita income now exceeds $580 dropped from 45 percent in 1966 to 6.6 percent programmed for 1980. Similarly, for PL 480 the percentage has dropped from 34 percent in 1968 to a planned 17 percent in 1978. Among the multilateral agencies, IDA makes soft loans only to countries with per capita income below $580 and the other MDBs harden terms of assistance as per capita income rises.

Since the MDBs raise additional funds in capital markets, they can obtain resources for hard term lending to MICs without substantially affecting the availability of concessional financing for the poorer LDCs. On the other hand, our bilateral assistance program is limited to a fixed level of resources, all of which may be made available on concessional terms; AID loans and PL 480 Title I credits could be provided on harder terms to MICs only by reducing availability of funds on more concessional terms for the poorer countries. PL 480 credit is subject to a statutory 25 percent of tonnage limitation for MICs.

The result has been a tendency for bilateral assistance, in general, to be reduced or withdrawn as countries enter middle income status. Arguments for continuing bilateral assistance to MICs have centered not only on continuing need, particularly among their poor, but also on the importance to the United States of many MICs. Apart from these intrinsic country or region-specific factors, there is a marked tendency for the importance of countries to the United States to increase as they progress in development—as markets for our exports, resources for our own markets, and as opportunities for U.S. private investment.

While the extent of U.S. interest may or may not argue for concessional assistance, MIC resource needs often can be met by assistance of the type and magnitude generally available from the MDBs and the IMF. Where MDB and IMF resources are insufficient to respond to such needs in countries of particular importance to the United States, the fast disbursing ESF and PL 480 Title I credits are useful to the extent they are available.

However, it is apparent that for some MICs, higher per capita GNP figures may only reflect the economic strength of an affluent few within a country. The plight of the poor majority may continue unchanged without the institutions and systems to enable them to actively participate and share in the benefits of national development. Controlling the environmental impact of industrialization and directing the exploitation of renewable resources often call for technology and institutions which are completely new to LDCs. Our bilateral program is particularly concerned with, and qualified for, assistance in building such institutions, systems and technologies. For poorer MICs to commit their limited resources to ventures which to them are new and untried, and which may be slow in showing tangible returns on investment, our sharing of risk through concessional terms may still be appropriate. Also, the use of concessional terms to lever an increased borrower share of project financing can be an effective alternative to hardening terms of assistance.

While per capita income is a basic factor in allocating bilateral assistance, assisting poorer MICs with institution/system building need not require high levels of assistance. Rather the importance of such assistance lies in the capacity of the new institutions and systems to mobilize and channel other resources, from the MDBs and from the recipients' own revenues, for the benefit of the poor within that country.

The OPIC program, which provides insurance and financing for private investors, is also important to middle income countries. Private investment offers a good alternative to official development assistance for providing MICs with needed capital, technology and managerial capacity. OPIC can help facilitate private investment flows by insuring investors against political risks that might otherwise deter investment. Within the past year, legislation and policy have emphasized OPIC's operations in countries with per capita incomes below $580, and restricted its operation in countries with per capita incomes above $1,000. These changes may bear rethinking because, in general, it is the middle income countries which have the essential minimum of infrastructure and prospects of economic and political stability to attract foreign investment. There is little OPIC can do to facilitate investment in countries lacking these basic requirements to attract foreign investment.

*The Basic Human Needs Development Strategy*

In recent years, the U.S. bilateral assistance program has been constrained by an overdrawn distinction between two allegedly inconsistent strategies of development. The first emphasizes growth and has been characterized as "trickle-down", the second, a very rigorous approach to basic human needs, has focused at times almost exclusively on equity.

The trickle-down approach is associated with the earlier years of American foreign assistance programs. It emphasized macroeconomic considerations and large-scale infrastructure development, and was frequently provided in the form of balance-of-payments support. Concern for the distribution and pattern of growth was not a primary concern.

In an effort to avoid some of the errors that resulted from this strategy, some have advocated the opposite extreme, the rigorous basic human needs approach. This is often seen as focusing almost exclusively on small target population groups with direct provision of services at the micro level through discrete small projects or groups of projects. Heavy conditionality and monitoring are required to ensure that the poor are the direct and immediate beneficiaries of the assistance provided.

Our bilateral programs' support for the basic human needs development strategy in fact combines elements of both these approaches. By concentrating development assistance on projects which increase the productivity of the poor, especially in rural areas, it supports expanding labor-intensive industries and small-scale enterprises that tend to promote a substantial expansion in employment. It thus focuses both on the supply of basic goods and services and on the access of the poor to them. A pattern of growth which supports both is essential to a basic needs strategy.

Our basic needs approach also recognizes that small programs can severely strain LDC administrative structure and thus require continued support by foreign personnel; they may also result in slow disbursement of assistance funds and delayed impact on recipient groups. Overcoming these constraints is likely to be more feasible if basic human needs programs balance growth and equity, and are thoughtfully designed to achieve their objectives through both large and small projects which acknowledge direct and indirect effects, long and short-term benefits, industrial as well as rural development—and if these activities are designed to both expand LDC productive capacity and provide verifiable benefits to the poor.

U.S. bilateral assistance has also supported some infrastructure improvements which make a significant contribution to productive, labor-intensive activities. Requiring that this infrastructure help the poor exclusively is unduly limiting; it is necessary, however, that the impact on the poor be demonstrable and significant.

The bilateral program thus plays a unique role within our foreign assistance policy. Equally basic are our multilateral programs, discussed in the following two chapters.

# CHAPTER V

## Multilateral Development Banks

With commitments totaling nearly $12 billion in the fiscal year ending September 30, 1978, as shown in the table below, the multilateral development banks (MDBs) were the principal official source of external capital for the developing countries of the world. By way of comparison, the corresponding figure for total U.S. bilateral aid totaled $5 billion, of which $1.2 billion was Development Assistance.

### TABLE 5

**Multilateral Development Bank Loans—FY 1978**
($ Millions, Commitments)

| | |
|---|---|
| *Non-Concessional Loans* | |
| Int'l Bank for Reconstruction and Development (IBRD) | $6,004.1 |
| International Finance Corporation (IFC) | 483.3 |
| Inter-American Development Bank (IDB) | 952.7 |
| Asian Development Bank (ADB) | 646.8 |
| Total Non-Concessional | $ 8,086.9 |
| *Concessional Loans* | |
| International Development Association (IDA) | 2,858.1 |
| IDB Fund for Special Operations (FSO) | 532.9 |
| Asian Development Fund (ADF) | 355.1 |
| African Development Fund (AfDF) | 155.2 |
| Total Concessional | $ 3,901.3 |
| Total Non-Concessional and Concessional Loans | $11,988.2 |

### *Multilateral Development Bank Issues*

Over the past decade a steadily rising proportion of development assistance has been made available through the MDBs. The United States played a leading role in the establishment of the multilateral development banks, and continues to play one in their operations. The U.S. Government considers that the MDBs are one of the most effective instruments for the promotion of the growth and stability of the developing world. As their share of development assistance has increased, the MDBs have effectively encouraged sound development programs and projects in an apolitical manner.

With regard to effectiveness, the MDBs are more able than individual governments to prescribe objective conditions for lending and to advise borrowing countries on economic policies required for effective development. Secondly, in some cases the regional banks—the IDB, the ADB, and the AfDB—cover countries in which the United States does not have an aid program. Finally, all of the MDBs have developed well-qualified and experienced multinational staffs and have become centers for international development expertise. The MDBs also provide a vehicle through which the industrial countries, in concert, are able to marshal increases in resources and to mobilize private capital for the world's developing countries, thus meeting a key concern in the context of the North-South dialogue. Clearly, the MDBs have served U.S. interests by advancing development efforts throughout the world, and by complementing our bilateral assistance in a number of ways.

Moreover, while U.S. control of multilateral lending is less direct than that for our bilateral aid programs, this factor has been balanced by the establishment of external units for audit and evaluation and by greater availability of information from the MDBs on their lending activities. Finally, effective review of projects in recipient countries is furthered by field visits of U.S. officials and coordination with bilateral aid personnel in the field. They also have proved to be a very cost-effective means to advance U.S. interests in the developing world, by multiplying U.S. budget contributions through burden-sharing with other donors, and through their borrowings in private capital markets.

Every dollar now contributed to the MDBs by the United States is matched by about three more dollars from other donor countries. Through consultative groups and aid consortia, the banks are able to act constructively, in a number of instances, to coordinate not only multilateral aid but also bilateral aid programs of individual donors, thus contributing importantly to overall aid coordination and resource mobilization.

The U.S. Government recognizes that because of their multilateral character—over 130 countries are members of one or more MDBs—no one country can dictate MDBs' policies. Our view of the fundamental objectives of the MDBs is shared by most other governments, and because we have a major voice in each of the banks, we have obtained a positive response and cooperation from other bank members and management in pursuing our policy priorities.

In the interest of improving the effectiveness of the MDBs, the United States exerts its influence on a number of lending policy and administrative issues in these institutions. The Administration, for example, supports the linking of MDB loan projects with policy and institutional reforms necessary for accelerating economic and social development in borrowing countries. It also supports the principal of "graduating" borrowing countries that no longer require assistance, or that require decreasing amounts, as a result of marked economic progress and substantially improved capacity to attract and service private capital.

The United States uses its voice and vote during consideration of MDB loans to express concern about continuing violations of human rights and the need for improvement in certain countries. In other instances, the United States has expressed its concern by taking actions that resulted in deferral of MDB Board consideration of loan proposals. The United States has also consulted with other MDB member countries in an effort to increase international cooperation to improve human rights practices in borrowing countries.

The MDBs have stepped up efforts to reach the poorest people in their borrowing countries. Since the vast majority of poor people in developing nations are engaged in agriculture, the MDBs have given increasing priority to loans for this sector. In some cases, the MDBs have complemented U.S. programs by lending for large-scale operations based on pilot projects financed by the Agency for International Development (AID).

Supported by the United States, the MDBs have shown a heightened awareness concerning the importance of light capital technology for the development process in the poor countries of the world. This new awareness has been expressed through creation of special organizational units in the banks which encourage efforts to consider appropriate technologies for developing countries. The MDBs also have given increasing attention to these technologies in project formulation, research, and in evaluation of completed projects.

The Administration has taken issue with the MDBs on administrative matters, such as staff salary levels. The United States supported the establishment of a Joint Committee of Executive Directors of the IMF and IBRD to review the salary structure and levels of the institutions. The Committee submitted its Report in January 1979, and the United States supports its recommendations on the principles governing salaries and fringe benefits.

Similarly, the United States has resisted excessive staff growth in the MDBs. Partly as a result of U.S. efforts, the combined rate of increase in staff for all the MDBs has declined significantly over the past two years.

If the United States is to have influence on MDB policies commensurate with its stature as a founding member and leader in these institutions, it is of the utmost importance that we meet our obligations as a member country. This includes the key element of providing our agreed share of financial support. The United States, however, has not fulfilled its financial commitments because of shortfalls in appropriations of funds authorized by Congress for the MDBs. Before the end of FY 1979, U.S. contributions due these institutions will total $990 million which have been authorized but not appropriated.

**TABLE 6**

**U.S. Contribution to Multilateral Development Banks**
($ Millions, appropriations)

| | FY 1977 | FY 1978 | FY 1979 |
|---|---|---|---|
| Concessional Funds | | | |
| IDA | 430.0 | 800.0 | 1258.0 |
| IDB/FSO | 210.0 | 114.7 | 175.0 |
| ADF | 25.0 | 49.5 | 70.0 |
| AfDF | 10.0 | 10.0 | 25.0 |
| Total Concessional Contributions | 675.0 | 974.2 | 1528.0 |
| Non-Concessional Paid-in Capital | | | |
| IBRD | — | 38.0 | 16.3 |
| IFC | — | 38.0 | 40.0 |
| IDB | 56.0 | 36.7 | 27.3 |
| ADB | 24.1 | 16.8 | 19.4 |
| Total Paid-in Capital | 80.1 | 129.5 | 103.0 |
| Total Concessional Contributions and Paid-in Capital | 755.1 | 1103.7 | 1631.0 |
| Callable Capital | | | |
| IBRD | — | 342.0 | 146.8 |
| IDB | 320.0 | 328.6 | 561.5 |
| ADB | 66.4 | 151.2 | 175.1 |
| Total Callable Capital | 386.4 | 821.8 | 883.4 |
| Total U.S. Contributions | 1141.5 | 1925.5 | 2514.4 |

*Multilateral Development Bank Activities*

A. International Bank for Reconstruction and Development (IBRD)

The International Bank for Reconstruction and Development (IBRD) is the parent body of the World Bank Group. The Group's affiliates are the International Development Association (IDA), which lends on highly concessional terms to its poorest member countries, and the International Finance Corporation (IFC), which makes loans and investments mainly for the private sector in developing countries.

The IBRD makes loans on near market terms, primarily to middle income countries in the developing world. In FY 1978, IBRD loan commitments totaled over $6 billion, as compared with about $5.5 billion in FY 1977. In borrowing countries where AID is also providing economic assistance, the United States frequently complements IBRD lending through small-scale pilot projects, training, or institution-building aimed at meeting and sustaining basic human needs. The Bank, on its part, lends for projects aimed at furthering overall economic growth itself as well as for projects designed to reach the poor directly. Thus, where AID has a substantial program, or where MDB lending is focused on projects benefiting the poor, the combined effect is the result of a flexible approach which provides for both intensive growth and for equitable sharing of the benefits of economic progress.

The recent emphasis in World Bank Group lending by sector is best illustrated by a comparison of combined IBRD/IDA operations for FY 1978 and FY 1974, shown in the following table:

**TABLE 7**

**IBRD/IDA Commitments by Sector—FY 1974 and FY 1978**

(Amounts in $ Millions)

| | FY 1974[1] | FY 1974 Percentage Share | FY 1978[1] | FY 1978 Percentage Share |
|---|---|---|---|---|
| Agriculture and Rural Development | 957 | ( 22.2) | 3,270 | ( 38.9) |
| Transportation | 1,322 | ( 30.6) | 1,093 | ( 13.0) |
| Electric Power | 770 | ( 17.8) | 1,146 | ( 13.6) |
| Industry & Industrial Finance | 764 | ( 17.7) | 1,302 | ( 15.5) |
| Other Sectors | 501 | ( 11.6) | 1,600 | ( 19.0) |
| Total | 4,314 | (100.0)[2] | 8,411 | (100.0) |

[1] Ending June 30.

[2] Figures do not add to total due to rounding

Between FY 1974 and FY 1978, annual IBRD/IDA loan commitments for agriculture and rural development more than tripled. Moreover, the majority of IBRD/IDA loans for this sector has been increasingly directed to small farmers to alleviate hunger and to increase production for home consumption or for sale in domestic markets. Lending for other sectors include some projects aimed directly at providing for basic human needs (for example, water supply, farm-to-market roads, and family planning). At the same time, it includes infrastructure projects aimed at promoting equitable economic growth generally.

Developments in the IBRD financial structure reflect the Bank's growing role as the world's leading source of long-term official capital for the developing world. In mid-1978, IBRD total subscribed capital amounted to $33 billion. The U.S. share was $8.3 billion, or 25.5 percent, and its voting share was 22.74 percent. Of the U.S. share, $841 million represented capital actually paid-in which required budgetary outlays. The remaining $7.5 billion in U.S. capital was callable. Thus, the United States has actually paid in less than 2 percent of the Bank's loan total of $45 billion since 1947.

In 1978, Congress appropriated $163 million toward the second installment of the U.S. subscription to a selective capital increase for all IBRD member countries totaling $8.3 billion, which was linked to quota increases of the International Monetary Fund (IMF) and approved by the Bank's Board of Governors in May 1977. (The IMF, which is concerned with balance of payments deficits of member countries, adjusts country quotas periodically to take into account changes in their relative economic positions.) The U.S. contribution authorized by Congress to the IBRD selective capital increase for FY 1978-80 totaled $1,569 million. A total of $452.5 million in callable capital and $50.3 million in paid-in capital remains to be appropriated for subscriptions due from the United States.

This increase was designed primarily to adjust relative member shares, not to increase Bank lending levels. The Bank's Executive Directors initiated discussions on a general capital increase in 1978. Toward the end of the year, the Administration outlined the replenishment proposal in consultations with Congress. The proposal calls for a further expansion of IBRD capital by $30-40 billion, which would permit annual lending to increase by about 5 percent in real terms beginning in the early 1980s. The expansion in IBRD lending would thus provide more resources from the world's major lender for economic and social growth in developing countries.

The IBRD has continued to increase lending to its poorer borrowing countries more rapidly than to its better off borrowers. (The very poorest borrowing countries have been able to rely increasingly on IDA.) To hasten this development, the United States has, over the years, supported "graduation" of borrowing countries whose economic progress and income have reached levels which permit them to meet their external capital requirements from commercial sources. The IBRD's present graduation policy calls for a five-year phase-out of countries which reach $2,000 per capita GNP (in 1975 dollars).

B. International Development Association (IDA)

In making highly concessional credits (maturities of 50 years at zero interest and a service charge of 3/4 of one percent), the IDA helps meet the needs of developing countries with a GNP per capita of $580 or less (in 1977 prices). Poor countries with per capita incomes of less than $295 (in 1977 prices) have received about 90 percent of IDA credits. Chief among these are African and South Asian countries. Although smaller in magnitude than those of the IDA, projects financed by AID sometimes complement IDA projects in the same manner as with IBRD projects. In these cases, the impact of multilateral and bilateral resources on the patterns of growth in the world's poorest countries is thus maximized through close cooperation and complementary projects.

In FY 1978, the IDA made new commitments of more than $2.8 billion, as compared with $1 billion in FY 1974. Unlike the IBRD, which obtains 90 percent of its resources by borrowing, the IDA depends entirely on contributions from its members, mainly from the world's principal developed countries. The original subscription to IDA and its five replenishments are shown below in 1977 dollars with the U.S. percentage share:

**TABLE 8**

**Schedule of IDA Replenishments**

| | Lending Period (Fiscal Years) | Total IDA Amount ($ Millions) | U.S. Percentage Share |
|---|---|---|---|
| 1960 Initial Contribution | 1961-64 | 965.8 | 43.10 |
| First Replenishment | 1965-68 | 963.3 | 39.07 |
| Second Replenishment | 1969-71 | 1,474.9 | 39.26 |
| Third Replenishment | 1972-74 | 2,960.8 | 39.12 |
| Fourth Replenishment | 1975-77 | 4,435.8 | 33.82 |
| Fifth Replenishment | 1978-80 | 7,731.7 | 31.04 |

U.S. appropriations requests totaling $292 million due in FY 1979 against the Fourth Replenishment of IDA remain unfunded. Appropriations for the Fifth Replenishment are up to date.

Fifth Replenishment resources are supporting IDA lending operations for the period July 1977 through June 1980. To permit extension of IDA credits to continue for an additional three years, it will be necessary in the current fiscal year to arrange for a further replenishment of resources to take effect in July 1980. The proposed Sixth Replenishment would permit continued IDA lending in FY 1981-83 to the poorest developing countries in the world.

C. International Finance Corporation (IFC)

The IFC is the World Bank's affiliate designed to encourage the growth of private enterprise in developing countries through loans and equity investment. On the average, the IFC finances about 20 percent of total project costs, thus providing considerable financial leverage for mobilizing scarce risk-capital in developing countries.

The IFC made a total of $483 million in loans and equity investments in FY 1978, as compared with $269 million in FY 1977. Nearly one-half of the IFC's projects in FY 1978 were in countries with a per capita GNP of less than $500, such as Cameroon, Egypt, Honduras, India, Lesotho, Mali, Sri Lanka, and Thailand.

In 1978, Congress approved $40 million as the second U.S. installment to the $540 million increase in authorized share capital approved by the IFC Board of Governors in November 1977. This capital increase will permit a substantial expansion of IFC operations.

During 1978, the IFC increased the volume and scope of its activities and reoriented its operations pursuant to its recent capital increase. The major emphasis will be to provide flexibility in response to development needs among a broader range of countries in different regions. The IFC plans to double the current level of investments over the next five years and shift further toward assistance in less developed regions, seek new forms of co-financing, and move toward sector diversification with a growing emphasis on developing natural resources in LDCs and toward a more active role in the agricultural sector.

## D. Asian Development Bank (ADB)

The ADB makes loans at near market terms to developing countries in Asia and the South Pacific. A high proportion of lending from the Bank's ordinary capital goes to middle income developing countries such as Korea, the Philippines and Thailand, as well as to Indonesia, all of which have developed an increased capacity for absorbing external capital in recent years. With specialized knowledge of the region, the ADB also complements AID assistance in several Asian countries like Bangladesh, Indonesia, Pakistan, and Sri Lanka, by assisting the poor directly.

In the fiscal year ending September 30, 1978, the ADB made new loans totaling $646.8 million, as compared with $516.0 million a year earlier. At the end of September 1978, total subscribed capital of the United States in the ADB amounted to $818.9 million, of which $222.8 million was paid-in and $596.1 million was callable capital. On that date, the U.S. voting share in the ADB was 8.27 percent.

## Asian Development Fund (ADF)

The ADF, which is operated by the ADB, makes loans on concessional terms to the poorest countries in Asia. The major share of these loans goes to Bangladesh, Burma, Nepal, Pakistan, and Sri Lanka which are among the poorest countries in the world. (Since India obtains a substantial amount of resources from the IDA, it does not borrow from ADF or from ADB ordinary capital resources.) About 55 percent of ADF lending is for projects in the agricultural sector, since the worst poverty exists in rural areas.

ADF lending during the fiscal year ending September 30, 1978 totaled $355.1 million, as compared with $215.9 million in the corresponding period a year earlier.

During 1978, the Executive Branch consulted with the Congress concerning a second replenishment of ADF resources which would imply a real annual growth rate of 9-10 percent in lending. In line with the requirements of the Sense of the Congress Amendment to the FY 1979 Foreign Assistance Appropriations Act, the proposed U.S. share will be 22.24 percent of the basic $2 billion replenishment, or a contribution of $111 million per year over the 1980-83 period. Since some other donors are making supplementary contributions totaling $150 million, the U.S. share of the total replenishment will, in fact, be only 20.7 percent, which compares with 22.24 percent of the previous replenishment and 28.6 percent of the original mobilization of ADF resources. Japan's share is now 40 percent.

## E. Inter-American Development Bank (IDB)

As in the case of the other MDBs, the IDB has two sources of funds for lending—ordinary capital, which is lent at near market terms, and the Fund for Special Operations, from which the IDB makes loans on concessional terms. Thus, the Bank is able to provide a flexible response to the development needs of the Latin American region.

In FY 1978, the IDB made a total of $972.7 million in loans from ordinary capital, as compared with $818.1 million in FY 1977. At the end of 1978, the IDB had 41 member countries, of which 15 were from outside the Latin American region, principally from Europe, and including Japan and Israel.

In CY 1978, negotiations were completed for a replenishment of IDB resources totaling about $8 billion in capital required for new lending for the period 1979-82. Over 90 percent of this capital would be callable and thus not require budgetary outlays. Since this proposed replenishment involves substantial amounts of funding, it was the most important MDB negotiating activity of the year.

The U.S. approach to this latest replenishment was governed, to a large extent, by the fact that most of the Latin American economies had moved far ahead of those in Africa and South Asia. As a consequence, several major changes emerged:

—The IDB lending program will undergo a significant restructuring during the period 1979-1982. The largest countries in the region—Argentina, Brazil, and Mexico—would receive no increase in borrowing in light of their widespread access to private capital markets. Thus, their percentage share of IDB lending will be sharply reduced although they will retain sizeable amounts in absolute terms.

—The better off Latin American countries will share more of the financing burden than in past replenishments.

—The paid-in portion will be reduced from 10 percent under the present replenishment to 7.5 percent.

—The Bank will target one-half of its lending to poorer people in recipient countries.

—Two-thirds of the paid-in capital subscriptions of Latin American and Caribbean members will be provided on a fully convertible basis; in previous replenishments only one-half was in convertible currencies.

—A further burden-sharing objective of the United States has been achieved with the increase in the cumulative share of non-regional members (Europe, Japan, and Israel) in IDB capital, from 4.4 percent to 7.2 percent, which was accomplished by their agreement to subscribe 11 percent of the capital in the latest replenishment.

## IDB Fund for Special Operations (FSO)

As part of its emphasis on assisting the poor in the less developed Latin American countries, the U.S. Government has strongly supported the IDB's concessional lending arm, known as the Fund for Special Operations (FSO). U.S. economic assistance programs tie in effectively with FSO resources in that region, particularly through U.S.-financed training and technical assistance programs targeted to the poorest people in rural areas of the poorest Latin American countries. On a per capita basis, most FSO lending has gone to Bolivia, Costa Rica, El Salvador, Guatemala, Haiti, Honduras and Paraguay.

In FY 1978, new loan commitments from the FSO totaled $574 million, as compared with $519 million in FY 1977. Also in 1978, the IDB initiated discussions aimed at replenishing FSO resources required for new lending on concessional terms during the period 1979-82. Under arrangements governing entry of non-regional countries to IDB membership and following the new replenishment, the United States will retain 34.5 percent of the voting shares, thus maintaining its veto power over loans made from the FSO.

The proposed FSO replenishment would total $1.75 billion for the 1979-82 period. Since the impressive economic performance of many Latin American countries reduces the need for concessional resources, the annual size of the forthcoming FSO replenishment can be smaller than the last one. The United States would contribute $175 million per year, as compared with the $200 million annual contribution which it agreed to make under the current replenishment.

The better off Latin American countries—Argentina, Brazil, and Mexico—will triple the convertible proportion of their contributions to the FSO from 25 percent to the equivalent of 75 percent. Also, in addition to the five countries which had already volunteered not to tap the FSO for convertible currencies during the last replenishment period, Chile and Uruguay will no longer do so.

The FSO's concessional funds, moreover, will be devoted increasingly to the poorest and least developed countries in the hemisphere. Outside this group, all countries which will continue to receive loans from the FSO have agreed to limit such borrowing to projects that directly benefit poor people. Thus, under the terms of the proposed replenishment, the uses of scarce concessional funds would be focused much more sharply on both the poorest countries and on the poorest people than has been the case in the past.

F. African Development Bank (AfDB) and Fund (AfDF)

The African Development Bank (AfDB) is unique among the MDBs in that its membership has been drawn entirely from regional developing countries as members. The AfDB, which makes loans on non-concessional terms, has subscribed capital amounting to $957 million currently. Its cumulative loans total $622 million.

At the May 1978 annual meeting of the AfDF, the Governors of the Bank authorized the beginning of negotiations on non-African membership in the Bank itself. The Administration strongly supports the efforts of the African Development Bank to expand its base of resources. Although it is too early to reach a decision on U.S. participation in the Bank, the United States has been engaged constructively in discussions with other non-African countries considering membership. Non-African membership in the AfDB could provide non-African states with a new vehicle for joining with African countries to further their development and expand resource flows to one of the world's neediest regions.

Although the Bank's membership is entirely African, it has established a concessional lending affiliate—the African Development Fund (AfDF)—in which industrial nations participate. Through the AfDF, the United States and other industrial countries have pledged about $450 million for lending on concessional terms to some of the world's poorest countries in Africa, and for projects designed to benefit some of the world's most disadvantaged people. Accordingly, priority is given to nations with per capita GNP of $200 or less.

The United States joined the Fund in late 1976. As of September 30, 1978, the U.S. contribution totaled $25 million and represented less than 6 percent of total

AfDF resources. For FY 1979, an additional $25 million was appropriated for the AfDF which will raise the U.S. share to about 10 percent and make the United States one of the largest donors in the AfDF.

Since its establishment in 1973, through September 30, 1978, the AfDF has made loans totaling about $460 million to 30 countries. But by the end of 1978, the AfDF had committed all of its loanable resources. To continue lending beyond that year, donors have agreed to a second replenishment of resources covering the period 1979-81. Total resources pledged amount to $713.5 million.

In preparation for submitting legislative proposals on the AfDF replenishment, the Executive Branch consulted with the Congress in 1978 concerning a proposed U.S. contribution of $125 million, which would result in a U.S. share amounting to 17.5 percent of the total replenishment. This proposed U.S. share would represent an increase from the current level of U.S. participation in the Fund, but would still be below the level of U.S. participation in any of the other soft loan windows of the multilateral development banks. Nonetheless, it reflects both the increased priority placed on U.S. relations with Africa and our commitment to the principle of burden-sharing.

*Continuing U.S. Concerns in the MDBs*

Questions have been raised about the capacity of the MDBs to administer projects designed to reach the poor and to meet basic human needs—projects that are inherently more complex than "growth only" operations but which support our broad policy interests. It is clear that the MDBs have made significant progress in designing and implementing projects of this type.

The MDBs have approached the issue of reaching the poor on a number of fronts. They have increased their lending in sectors and for projects which are more likely to benefit the poor. They have shifted loans to poorer regions in recipient countries, they have designed projects to include specific poverty-focused components, and they have sought to involve poor people in the formulation and implementation of projects. They have also acted to identify project beneficiaries and the poor. The Administration firmly supports the MDBs' continued efforts in this area.

Another issue is the enactment of legislative restrictions against U.S. support for certain types of projects or against MDB lending to certain countries. The United States has been successful in working with other countries in achieving our major policy objectives, and any effort to impose restrictions on the use of U.S. funds in MDB operations would be inconsistent with the multilateral nature of the banks and would encourage others to adopt a similar approach.

Also of particular concern at a time of fiscal constraint in the United States are issues concerning funding of the MDBs. It was with U.S. support, in this connection, that in the recently completed replenishment negotiations for the IDB the paid-in capital component was reduced from 10 to 7.5 percent. In the forthcoming replenishment negotiations for the IBRD, the Administration is seeking a reduction of paid-in capital and is considering whether, in fact, any paid-in capital is necessary.

The bulk of the MDB lendable funds come from proceeds of their bond sales in international capital markets. Repayment of these bonds by the MDBs is guaranteed, in turn, by callable capital subscribed by MDB member countries. It is important to note that the MDBs have never needed to invoke these guarantees, the exercise of which would require this class of capital to be paid in by member countries. Thus, the issuance of callable capital has never resulted in budgetary expenditures, and is highly unlikely to require such outlays in the future. Reliance on callable capital is, therefore, extremely useful in the context of reducing budgetary expenditures. Callable capital is currently appropriated by the U.S. Congress. While there are sound technical reasons for this, the effect is to overstate the foreign assistance budget substantially.

The Administration believes that the MDBs are effective in encouraging sound development projects and programs, in sharing the burden of economic assistance, and in pursuing U.S. policy objectives. U.S. interests have been well-served by the accomplishments of the MDBs in contributing to the economic and social progress of the developing countries of the world.

# CHAPTER VI

## International Organizations

In addition to its bilateral assistance and its membership in the MDBs the United States pursues its foreign policy objectives through its participation in development assistance activities in the United Nations system and in various regional institutions.

Active participation in international organizations and programs is vital to the pursuit of major U.S. policy objectives:

—Maintaining U.S. leadership in shaping the changing patterns of global cooperation;

—Strengthening the United Nations' capacity to act effectively on specific global economic, social, humanitarian, and environmental problems;

—Sustaining and augmenting UN efforts to assist the less developed countries;

—Increasing benefits that accrue to the U.S. economy through worldwide economic growth and technical cooperation.

The importance of these objectives has increased over the years as interdependence in international affairs has grown.

The United Nations system has become a major arena for U.S. diplomatic initiatives—one in which political and security considerations are inextricably linked to social and economic issues. The UN today is the principal forum for the North-South dialogue, and its programs and agencies are increasingly influential in global economic and social affairs.

In the drive to achieve global stability and growth, the UN and its specialized agencies and programs serve to mobilize resources for each new thrust in international economic cooperation. Food, housing, population, environment, energy, employment, health, science and technology, and other socio-economic issues comprise the UN agenda.

*Benefits to the United States*

Our voluntary contributions to technical assistance programs of the United Nations and of regional organizations such as the Organization of American States (OAS) promote Presidential and Congressional initiatives regarding the world food, energy and international health problems. For example, the recommendations of the Presidential Commission on World Hunger, the International Nuclear Fuel Cycle Evaluation Review, or the International Health Strategy Initiative of the DCC would be proposed to and implemented through UN programs as well as U.S. bilateral programs. More generally, UN programs are becoming more responsive to the new directions and basic human needs approaches in foreign assistance, which are key elements in U.S. development policy.

The benefits derived from UN technical assistance programs are not limited to the developing countries. They also serve directly the interests of industrialized nations. The research activities of the World Meteorological Organization (WMO) give us invaluable information about climatic changes and atmospheric pollution. The International Atomic Energy Agency (IAEA) establishes and implements safeguards to limit nuclear proliferation. The Food and Agriculture Organization (FAO) develops standards for foodstuffs in international trade. The World Health Organization (WHO) establishes and implements programs for the prevention of international spread of disease. Funds contributed to UN programs have a direct beneficial impact on the United States. For example, the UN Development Program is estimated to spend over $100 million in the United States each year to buy U.S. goods and services. In fact, multilateral technical cooperation is not simply a resource transfer from the rich nations for the exclusive benefit of the poor. The lines of demarcation are not so explicit. In an interdependent world—where prosperity in the developed countries is closely linked to steady growth and modernization in the developing world—these voluntary contributions represent long-range investments with a substantial return to the United States.

We act to carry out traditional American humanitarian values by providing contributions to help meet the most basic needs of people in the poorest countries. However, the reality is that humanitarian concerns—though differently motivated—often coincide with legitimate

U.S. economic and political interests in their eventual impact.

*Global Benefits*

In a period of resource scarcity, technical assistance has become a highly cost effective way to stimulate the global economy. UNDP technical assistance, for example, serves as a channel for preinvestment work for the projects of international financial institutions and the private sector. The follow-up investment opportunities generated by UNDP—estimated at some $28.8 billion between 1959 and 1977—are taken up to a significant degree by U.S. private firms. UNDP advisors help to identify existing, unused and untapped resources. They have been credited with discovering some $20 billion worth of mineral deposits. Using indigenous technology, UNDP facilitates the building of roads, rural power systems, communications and other facilities that increase the capacity of the developing countries to help themselves and each other.

In addition, multilateral technical assistance programs draw on a pool of international knowledge, skills and language proficiency that no single country can provide; they allocate assistance primarily on the basis of development criteria; they influence recipient countries to pursue sound development policies and practices and set international standards for technical assistance projects.

The growing economic interdependence makes underdevelopment in one part of the world a liability for the other. Furthermore, the pressing problems of food, energy and population, for example, are global in scope and will entail serious dislocations and rising costs for everyone unless they are decisively confronted. Multilateral agencies are uniquely well suited to address these problems and opportunities of interdependence.

*Nature and Levels of Funding*

U.S. contributions to the UN and its specialized agencies take two forms: (1) assessments, primarily to support operating expenses, are determined by each agency governing body and are given by each member country to fulfill legal obligations of membership incurred upon its acceptance; and (2) voluntary contributions which are provided to finance programs of special interest to donor countries, primarily for humanitarian and development assistance purposes.

Although this division of functions between voluntary and assessed contributions is broadly observed, many UN agencies undertake some technical assistance activities financed by assessed contributions, often of benefit to specific countries or projects. FAO, the World Intellectual Property Organization (WIPO) and other agencies do conduct such activities; the WHO has a mandate to devote 60 percent of its assessed budget to technical cooperation activities, but such a large proportion is unique within the UN system. The total amount is very small—$141.5 million (1978 estimate) and only 13.9 percent of total assessments. If WHO is excluded, the amount is only $31.5 million or 3.8 percent.

U.S. policy supports the division between the uses of voluntary and assessed contributions, on the ground that each country should determine for itself the amount of its resources that should be applied for technical assistance of special benefit to certain other countries. The United States favors strongly that the UN Development Program remain a central allocating, programming and coordinating agency for voluntarily funded UN technical assistance activities. The United States also advocates that each UN agency minimize technical assistance on an assessed basis and, wherever appropriate, transfer funding to voluntary contributions.

Members of Congress have expressed concern that technical assistance be provided and coordinated through voluntary rather than assessed contributions. An indication of this concern was contained in the Helms Amendment to the FY 1979 Department of State Appropriation Act which deleted $27.7 million from the appropriation of assessed contributions deemed by Congress to be destined for financing technical assistance. More importantly, it prohibited any portion of the remaining $327.7 million from being used for technical assistance by the United Nations or any of its specialized agencies. For reasons related to Charter provisions, financial regulations and program coherence, the UN and its specialized agencies cannot accept assessed contributions with conditions attached. As long as the prohibitory language remains in effect, the United States will be unable to meet its legally binding financial obligations to the UN. When signing the State Department Appropriation Act, President Carter said the prohibitory language of the Helms Amendment was unacceptable and would force the Government to violate its treaty obligations. The President has proposed

1979 supplemental appropriation language in his 1980 budget which would remove this limitation, thereby allowing the United States to pay its 1979 assessments.

At the same time, the Administration believes that if clear criteria are met and common interests served, modest technical assistance funding should be continued in some assessed budgets. UN technical assistance work has been overwhelmingly consistent with U.S. policy objectives—for example, the WHO program to eradicate and control communicable disease such as smallpox and malaria, or the FAO programs to combat emergency outbreaks of plant and animal disease—and the United States has supported these efforts. Also, some UN agency charters, which we accepted by joining the organizations, specifically provide for the furnishing of technical assistance out of regular assessed budgets. Maintaining the new legislation would force the United States to violate accepted agency charters, decrease its influence in the UN system, and damage the important process of international cooperation we helped build over three decades.

*UN Programs*

U.S. voluntary contributions to UN programs fund activities in four broad categories: (1) development technical assistance, (2) humanitarian needs, (3) international scientific cooperation, (4) education and research.

Approximately 45 percent of the $282.6 million voluntary contribution to the United Nations for FY 1979 goes to the UN Development Program (UNDP). Operating through 106 field offices, UNDP is the largest single source of multilateral technical cooperation. It coordinates technical assistance with multilateral and bilateral assistance at the country level, and serves as a link in a larger development chain of projects financed by international financial institutions and by private investors. Its regulations require significant financial and institutional self-help from the recipient countries. Further, UNDP's emphasis on assistance to the poor, both through infrastructure and social projects, promotes human rights and basic human needs in accordance with U.S. development priorities. The Peace Corps participates actively in the UN Volunteer Programme (UNVP), a component of UNDP, by sponsoring an average of 50 U.S. volunteers (10 percent of the total UN volunteers) and by grant support for participation of developing country volunteers, roughly equal to 25 percent of the program's overall budget.

Technical assistance also provides a channel for innovation and initiative on global development issues of high priority to the United States. For example, an expanded role for the UNDP is being considered currently to provide technical assistance to develop new and renewable energy sources in LDCs.

The UN Children's Fund (UNICEF) programs in health, education, nutrition, and other fields directly benefit the welfare of over 750 million children and mothers in developing countries. Moreover, UNICEF has a growing developmental role through its efforts to provide permanent health and nutrition facilities for poor mothers and children.

Three agencies in particular—the International Atomic Energy Agency (IAEA), the World Meteorological Organization (WMO), and the UN Environment Program (UNEP)—are multilateral efforts that provide services and benefits to all countries. The IAEA conducts research and establishes controls over nuclear activities worldwide, emphasizing a safeguard inspection program which helps limit nuclear proliferation. WMO and UNEP are sources and coordinators of information on global weather and environmental conditions.

The UN Institute for Training and Research (UNITAR) is a source of politically independent research and study for the entire UN system, while the UN University acts as promoter of collaborative research focusing on development issues.

*Restructuring the UN Economic and Social Sectors*

The United States was one of the leading proponents of establishing the UN General Assembly's Ad Hoc Committee on Restructuring of the Economic and Social Sectors of the United Nations System in 1975. After two years of work by the committee and many hard-fought compromises, a resolution on restructuring was adopted by consensus at the 32nd General Assembly.

The sense of the resolution was to streamline and to rationalize the functions in the UN agencies and organs dealing with the economic and social sectors. The most far-reaching reorganization affects the support services of the UN Secretariat. In line with the resolution, a Director-General for Development and International Economic Cooperation was appointed in the spring 1978 to assist the Secretary General with his responsibilities in the economic and social fields. The Department of Economic and Social Affairs was also reorganized by dividing its research and operational functions and putting an Under Secretary General at the head of each. Under the terms of the resolution, the Economic and Social Council (ECOSOC) is to concentrate on formulation of policy recommendations and overall coordination. It was also recommended that the ECOSOC might hold shorter but more frequent subject-oriented sessions and that it should abolish as many of its subsidiary committees as possible and assume their functions. At the same time, the stature of the five regional economic and social commissions under ECOSOC was enhanced. Progress reports on the implementation of the resolution on restructuring were submitted to the 33rd UN General Assembly. However, it is too early to evaluate the effectiveness of the reorganization.

*Development Issues at UN Forums*

The UN Charter provides the mandate for the United Nations to act on matters concerning economic and social cooperation and development. Successive development decades in the 1960s and 1970s have set targets for average annual growth rates for industrial and agricultural production and foreign trade of LDCs. The International Development Strategy for the Second UN Development Decade, adopted by consensus in the UN General Assembly in 1970, was the first sophisticated effort to prescribe specific growth rates for GNP, per capita income, agricultural and manufacturing output, and trade for the LDCs. The strategy also set a 1 percent target of GNP for private and official financial flows from developed to developing countries and encouraged the developed countries to provide 0.7 percent of GNP to developing countries in the form of Official Development Assistance (ODA) by 1975, although the U.S. and other major donors refused to accede to these targets. However, it should be noted parenthetically that by early 1979 all the members of DAC, with the exceptions of the United States, Austria, Italy and Switzerland, had agreed to the 0.7 percent of GNP target, although it was not always specified by which date this was to be met.

In the mid-seventies political and economic events changed the profile of development concerns for both developing and developed countries. The politics of the oil embargo, the formation of OPEC and the rise in oil prices, and the rise in food prices changed the world economic and political climate. This was most quickly reflected at the various forums of the UN. Although OPEC came to be the only successful producers' cartel, its success led to the development of more visible and assertive solidarity by developing countries vis-à-vis the developed, as manifested in G-77 and other country blocs in the UN. Gradually, however, the stance of confrontation has begun to give way to fuller comprehension of interdependence and the global scope of many economic and social problems. This again is clearly felt in the negotiations at various UN forums.

The expressed willingness of the North to negotiate on some of the issues of central importance to the South led to the convening of the Conference on International Economic Cooperation (CIEC) in Paris in December 1975. Comprised of 27 members—8 developed countries, including a single representation for the EEC, 7 members of OPEC, and 11 developing countries—the conference achieved little in 1976 since the developed countries wished to concentrate on energy problems while the others wished to concentrate on the debt, commodity and other problems of the LDCs. Most of the issues (which included a proposed $6 billion Common Fund, compensatory financing, diversification and local processing of raw materials, debt relief, access of developing country manufactures to developed country markets, and a code of conduct for transnational corporations) were not resolved at the close of the conference in June 1977. However, agreements were reached on the following important matters: (1) that a one-time $1 billion concessional Special Action Program should be created to help low-income countries; (2) that in principle there should be a common fund to finance buffer stocks for certain raw materials covered by the Integrated Commodities Program; (3) that the industrialized countries could increase the volume of their Official Development Assistance; (4) that the World Bank should expand its activities to further energy development in LDCs.

In the wake of the Paris CIEC, the Un General Assembly's Committee of the Whole on International Economic Policy (COW) was created in December 1977 to serve as a major forum to oversee the North-South dialogue as well as to prepare for the Special Session on international development cooperation for the 1980s and beyond, scheduled to be held in 1980. The COW's mandate was to discuss global economic issues, to monitor implementation of agreements reached in UN forums, and to facilitate and expedite agreement on outstanding issues. The developing countries (G-77) wanted the COW to be able to negotiate agreements. The United States and other OECD countries, on the other hand, have insisted that the COW's proper role was not to negotiate agreements but to "facilitate and expedite" agreements in other appropriate forums.

The question regarding the mandate of COW came to a head during its aborted September 1978 session which, as a consequence, was unable to deal with the unfinished issue of the transfer of real resources, not to mention its own agenda. To resolve the deadlock, COW Chairman Jazairy (Algeria) offered an interpretive formulation to the effect that the COW "will negotiate with the view to . . . its achieving agreement on the resolution of fundamental or crucial issues underlying unresolved problems related to international economic cooperation" —a formulation much closer to the G-77 than to the developed countries' position. Although other Western countries were prepared to accept this language, the United States would accept it only if this was understood to mean "facilitate and expedite" agreements in appropriate forums. The result was a G-77 decision to suspend the session pending clarification by the General Assembly, accompanied by accusations of U.S. responsibility for the impasse.

At the General Assembly, Secretary Vance, in his September 29th speech, indicated that the United States could accept the Jazairy formulation in light of subsequent clarifications, and a general agreement that the COW should not overlap the work of other forums and that it should reach agreement on the basis of consensus. This statement did not entirely satisfy G-77 leaders. However, a formula was finally worked out under which the President of the General Assembly reiterated the Jazairy formulation of the COW's mandate; and, a resolution was adopted regretting past divergences of views and stressing the need for the COW to make real progress on issues brought before it. Further meetings of the COW will take place in 1979.

*UN Conference on Trade and Development (UNCTAD)*

At the 1976 fourth ministerial conference of the UN Conference on Trade and Development (UNCTAD IV), negotiations on an Integrated Program for Commodities were set in motion. Subsequently, at CIEC in May 1977 the principle of a Common Fund was endorsed. However, the details of the Common Fund were to be negotiated under UNCTAD auspices. The December 1977 session of the conference on the Common Fund ended in an impasse over questions how the fund was to be financed, who could borrow from it and for what purposes, and who would control it. The LDCs wanted (1) direct mandatory capital subscriptions from governments to finance present and future buffer stocks, (2) a "second window" for financing such measures as commodity diversification and processing, market promotion, and improvements in productivity.

The United States and other developed countries wish to finance the Fund by pooling cash resources of individual commodity agreements and then borrowing from the Fund; initially, they had opposed the "second window" because various existing institutions already fund such activities, but agreement on the need for an appropriately defined "second window" was reached in late 1978.

The U.S. has agreed in principle to participate in international commodity agreements to stabilize prices around their long-term market trends; it is already a party to a few commodity agreements; and, it is participating in discussions on the feasibility of various price stabilization agreements. Congress, of course, has to approve any negotiated agreements. Commodity price stabilization might contribute significantly to slowing world inflation. The next broad forum which will be addressing commodity issues will be the fifth ministerial meeting of UNCTAD to be held in Manila in May 1979. UNCTAD V will undoubtedly address the unfinished items of the UNCTAD IV agenda and focus on trade and development policies for the 1980s. The G-77 countries are holding a preparatory meeting for it in February 1979 to consolidate their positions and priorities.

*General Agreement on Tariffs and Trade (GATT)*

The "Tokyo" round of multilateral trade negotiations (MTN) had been initiated by a ministerial meeting in 1973. The negotiations involve not only tariff barriers but also subsidies, countervailing duties, quantitative restrictions, customs valuation, etc. Protectionist pressures in the industrialized world are heavily concentrated in industries in which the developing countries have begun to export: textiles, shoes, etc. Liberalization of trade is of particular significance for the middle-income developing countries, since trade is likely to continue being their main source of foreign exchange.

*Science and Technology*

The subject of the relationship of science and technology to development will be taken up by the UN Conference on Science and Technology for Development (UNCSTD) in Vienna in August 1979. A significant item on the UNCTAD V agenda which will probably also affect UNCSTD is negotiation on a code of conduct for the transfer of technology. One major problem concerning the code is that the developing countries want a mandatory code providing for free access to and no restrictions on the use of technology while the developed countries want a voluntary code which would leave to private negotiations the issues of cost and appropriateness.

UNCSTD is of great interest to the Third World. The conference has a mandate to be action oriented and to deal with quantified targets and concrete socio-economic improvements. Many developing countries view the private character of patents, copyrights, etc. as obstructing their access to technology. They wish for a technology transfer in a form which would reduce their dependence on the North.

In preparation for UNCSTD, an office of U.S. Coordinator for UNCSTD was established in the State Department to provide support for the U.S. delegation and to determine together with the private sector what the American policy on technology ought to be. The Foreign Relations Authorization Act for FY 1978 authorizes the President to stress at UNCSTD the development and use of light capital technologies to help benefit the world's poor.

*World Food Situation*

Food and related issues have been of longstanding concern to several international forums. The Food and Agriculture Organization is preparing for a World Conference on Agrarian Reform and Rural Development to be held in July 1979. Although there have been preliminary meetings in various geographic regions, thus far, there have been few commitments to land reform measures by governments which might contribute to lasting rural development. Preparations for U.S participation in this conference are well under way.

The World Food Council created by the 1974 UN World Food Conference to coordinate the conference results and to be the highest UN organ on food policy held its fourth annual meeting in Mexico in June 1978. At that time, it was not able to note any substantial improvement in the world food situation.

Another outgrowth of the 1974 World Food Conference is the one billion dollar International Fund for Agricultural Development which was established in November 1977. During 1978, a great deal of time of the Fund staff and Executive Board was taken up by procedural and practical matters involved in bringing IFAD into full operational status. While the start of lending operations has therefore been slower than anticipated, the Fund has succeeded in committing over $100 million on agricultural development projects in Sri Lanka, Tanzania, Guyana, Ecuador, Thailand, Haiti, Philippines, Bangladesh and Cape Verde. Each of these projects is being co-financed with one of the existing multilateral development banks. In accordance with IFAD's Articles of Agreement, the cooperating institution in each project carries the responsibility for implementing it. In all projects, IFAD's portion of funding is focused on increasing the productivity and well-being of small farmers and the rural poor.

Targeting IFAD assistance on small farmers and the rural poor is a basic principle embodied in IFAD's lending policies and criteria. While members readily agreed on this basic thrust, translating the policies and criteria into operational terms has been one of the more difficult tasks that members have had to deal with, notably with regard to guidelines for the allocation of the Fund's resources and eligibility for different lending terms. An understanding has now been reached on these questions with members agreeing that up to two-thirds of the Fund's resources will be reserved for the least developed.

The latter are defined for this purpose as having an annual per capita income of $300 or less, with the additional provision that only this group of recipients will be eligible for the Fund's softest lending terms of 1 percent interest and 50 year loan amortization. With the resolution of basic policy and procedural questions, one can expect a substantial acceleration in the rate of loan commitments during IFAD's second year of operations.

In the United States, public and Congressional concern about widespread hunger and malnutrition prompted the President to create a World Hunger Working Group; its report led to the creation of the Presidential Commission on World Hunger to help inform the public and to recommend policies on the food problem.

*New International Development Strategy*

As we approach 1980 and the Third Development Decade, preparations for a new International Development Strategy (IDS) have begun. At the 1978 General Assembly, a consensus resolution was adopted to set up a Preparatory Committee to draft the new strategy. The resolution also provided broad substantive guidelines for the committee. Negotiating sessions on the IDS are scheduled for January, March, June and September 1979. A draft report is to be presented at the summer session of the ECOSOC. The strategy is scheduled to be adopted at the 1980 Special Session of the UN General Assembly.

Although the planning and preparation for the Third Development Decade is still in the most preliminary of stages, both at the UN and in individual countries — developed as well as developing — a general outline of the aims is emerging: all parties recognize that basic human needs have to be met. In this connection there is a stress on the social as well as economic aspects of development, for example, the role of women or the quality of life. Secondly, there seems to be an inclination to think in longer range terms and about global issues; for example, the need to look beyond 1990 toward the year 2000 for such broader goals as eradicating the worst aspects of poverty or resolving population, energy and environmental problems. Third, there seems to be an increasing emphasis on self-reliance and self-help in the developing countries. By the same token, the developing countries ask for recognition as subjects rather than objects in the new IDS.

In terms of international preparation for launching the Third Development Decade, considerable interest is being given to the Independent Commission on International Development Issues, known as the Brandt Commission, because it is headed by the former Chancellor of the Federal Republic of Germany. Composed of influential and authoritative members from both the developed and developing world, the Commission has a broad mandate including that of exploring the possibilities of involving the countries with centrally planned economies in development assistance. Its report, which is to be completed by fall 1979, is expected to have an important input into the planning for the Third Development Decade.

The United States is also beginning to explore the issues and to define its position on the new development strategy. The framework for the U.S. position is aptly summarized in the International Development and Food Assistance Act of 1978 which states:

> *The Congress, recognizing the desirability of overcoming the worst aspects of absolute poverty by the end of this century, by, among other measures, substantially lowering infant mortality and birth rates, and increasing life expectancy, food production, literacy and employment, encourages the President to explore with other countries, through all appropriate channels, the feasibility of a worldwide cooperative effort to overcome the worst aspects of absolute poverty and to assure self-reliant growth in the developing countries by the year 2000.*

The U.S. agencies concerned with international development are seeking to ensure that the strategy developed will embrace human rights and basic human needs priorities. It will focus on several groups of issues: (1) food, population and health, education and housing—the supply side of basic needs; (2) employment and income—the demand side; (3) energy, deforestation and desertification, and commodities—the effective use of available resources; (4) science and technology—the tools for development. Within this area it would be useful to assign priority to specific sectors such as energy and health which are of concern to the United States as well as to the developing countries. By putting forth such initiatives in appropriate forums to the developing countries, the United States can hope to facilitate the emergence of a cooperative multilateral approach to development which can only signify mutual advantage for all countries concerned.

# CHAPTER VII

## Building Human Resources for Development

### A. Population, Health and Nutrition

*The Relationship to Development*

In most developing countries, where labor is already generally abundant, population growth can only hamper efforts to improve individual living standards. Hard-won increases in output must go in large part to support additional population, with precious little left over to finance investment, reward labor or improve general living standards. Population programs are, therefore, crucial to real development progress.

The U.S. Census Bureau, in the fall of 1978, published a study which shows a decline of one tenth of one percent in the world population growth rate. More importantly, there was a similar decline in the less developed world—although the average annual growth in the LDCs, 2.3 percent, remains high. This study has revived the debate over the causes and the relative importance of the factors contributing to a slowdown in population growth.

Some population experts believe that the most effective approach to control population growth is the provision of contraceptive services and supplies. They argue that this has been the thrust of population programs over the past ten years, and that the recent decline validates this approach. They bolster their argument with data which reveal declines in fertility unrelated to socio-economic factors. Others, however, contend that socio-economic factors have significant bearing on population growth rates; that improvements in health, nutrition, education and employment for example, can result in even larger declines in population growth rates. Therefore, these experts favor the integration of population efforts into the larger development context.

The issue of demand for the use of family planning services is another element of the population strategy debate. Availability of supplies alone, it is argued, does not necessarily mean use, and it is the use of services and supplies upon which the effectiveness of population programs ultimately depends.

There is agreement that several factors have some correlation to reduction in population growth rates:

—economic growth rates
—distribution patterns
—availability of contraceptives
—education levels, particularly of women
—national family planning policies and programs/support by host governments
—traditions and cultures.

Controversy continues over the relative importance of each of these factors, given the need to allocate limited resources. The trend in population growth seems to favor a balanced strategy—strengthening the provision of family planning supplies and services while expanding efforts to maximize demand, to encourage motivation for smaller families, and to integrate the population programs with other development activities. Current U.S. development assistance policy directs that all these factors be taken into account in its assistance programs within the country context.

Among the major development concerns are the health conditions in the less developed world. Lack of the most basic sanitation facilities contributes to the high incidence of malnutrition and endemic diseases. Disease and poor health not only deprive the poor of a more enriching life, but also prevent their full participation in development and in sharing in the increased income and opportunities which development can offer.

Investments to increase the productive capacity of the poor and their share in economic growth are the sound developmental objectives of an international health strategy. In September 1978, the World Health Organization (WHO) and the UN Children's Fund (UNICEF) sponsored an International Primary Health Care Conference at Alma Alta in the USSR. The conference, attended by representatives of some 140 governments, UN agencies and non-governmental organizations, stressed the interdependence of health and development and the importance of community based health systems, universal accessibility to essential health care, and the equitable distribution of health resources. The declaration of Alma Alta calls upon governments to formulate national health policies and to launch national health systems based on the delivery of primary health care which it defined as:

*. . . essential health care made universally accessible to individuals and families in the community by means acceptable to them, through their full participation and at a cost that the community and country can afford. It forms an integral part both of the country's health system of which it is the nucleus, and the overall social and economic development of the community.*

Good health requires adequate nourishment. In the less developed countries, a disproportionate share of the malnourished are women, infants and children. It is in this group that the vicious circle of high fertility, malnutrition, ill-health and death is perpetuated.

The interrelationship of the problems of population, health and nutrition is clear. The needs to integrate these concerns into the total development effort is increasingly evident if development progress is to be equitably shared by the peoples of the developing countries.

*An Integrated Population Strategy*

Growing populations strain human and natural resources. Demands for food from the earth and from the seas are eroding our lands, our forests and our stocks. In the poor countries, food production cannot keep pace, demand for firewood is depleting the tropical forests, demand for fish and sophisticated fishing technology are depleting fishing stocks, triggering conflicts over fishing rights. There is a paradox, however, in the population problems which confront donors and host countries. Without development, it is difficult to bring about a substantial reduction in the birth rate—at the same time, a reduction in birth rates is essential to successful and equitable development. Similarly, improved health and nutrition increase populations by reducing mortality, but they also eventually lead to a decline in population growth rates. The experience of the last decade, however, suggests a strategy which might address the paradox. Donors and host countries have reached a consensus on key elements of this strategy:

—Population problems must be viewed in a country-specific context and programs designed to meet the needs of each country in whatever manner is most efficient and effective. This requires close cooperation among donors as well as with host country officials;

—Health care, nutrition, population and development are all causally related requiring integrated solutions while continuing the direct provision of family planning;

—Well-planned and well-managed health care programs, particularly primary health care, are productive investments which enhance prospects for development;

—Socio-economic development can have a significant effect on decisions about family size. Reduced infant mortality through improved health care and nutrition, the full integration of women into the development process, and educational opportunities are some aspects of development that lead to decreased fertility.

The less developed countries acknowledge that to meet basic human needs it is necessary to tackle the determinants of fertility (nutrition, health, sanitation and education) and its consequences (urban growth, rural out-migration, unemployment, dislocation) as well. The LDCs also recognize that they must pay increasing attention to demand for family planning; and donors are prepared to help them stimulate demand by assisting integrated development programs, efforts to strengthen women's roles, by information, education and communication (IEC) programs; and by greater community involvement.

Nevertheless, in many of the less developed countries, direct family planning programs have been quite successful and remain the prime strategy for implementing population policies. This may be due in part to the demands placed on infrastructure and on administrative capacities by more complex, integrated approaches. In addition, the single sector approach has been the norm in both host and donor countries and is reinforced by existing bureaucratic and programmatic structures. Integration of several development components into a larger, comprehensive program, will be difficult. Most aid donors, however, are planning "population components" and are proposing to assess the impact on fertility of their development projects in other sectors. The United States is one of the first donors to implement this strategy.

The developing countries increasingly favor "self-reliance" in the determination of national population policy, in the selection of programs, and in research. Some LDC governments want to produce contraceptive materials and supplies which many donors encourage. This issue is now surfacing in the World Health Organization, commanding international attention, and bringing it into the context of the North-South dialogue.

Control of population growth is central to achieving human rights and basic human needs. The LDCs increasingly stress the human rights aspects—both the individual's right to make an informed choice on family size and spacing, and the government's obligation to provide information and means to do so.

Similarly, the availability and distribution of health care services in the developing countries are at the very heart of the world's concern about basic human needs and human rights. Assistance programs in health care in the less developed countries are directed toward the major health problems of the poor—common infections, disease, malnutrition, too frequent pregnancies—and toward the major causes of these problems, lack of clean water, inadequate waste disposal, shortages of food, and inadequate health care and family planning, An integrated approach to health care is generally being adopted, emphasizing primary health care services and integrated delivery systems which extend health, nutrition and family planning services, primarily to rural areas.

*Bilateral Assistance*

U.S. assistance programs address a broad range of physical, social, economic aspects of development focused on meeting basic human needs. The basic human needs policy is targeted toward patterns of growth which benefit the poor. Control of population growth, adequate nutrition and health care are prerequisites for enabling the poor to participate in economic development.

AID's efforts in population focus on two aspects. Its population program account is allocated for improving and extending family planning services and information; its funds in other accounts are used to determine which aspects of development may encourage smaller families.

A substantial portion of U.S. assistance is spent for contraceptive supplies. But supply does not automatically mean use. Use depends on the quality and extent of the distribution system—and on the demand. Because demand is built upon motivation, the U.S. Government has adopted as central to its population program and as a factor in its programs in other sectors such as agriculture and education, building motivation for smaller families and increasing the demand for family planning. Voluntary decisions on family planning reflect parents' views on how many children to have—and those views depend in turn on economic and social conditions, especially as they affect women. Many women throughout the Third World find recognition and status as mothers of many children. Many parents, to assure the survival of several children, tend to have many children when child mortality is high. Frequent pregnancies may worsen the health of each succeeding child and so create a vicious circle. Development can make smaller families a more attractive option by broadening women's opportunities and by convincing parents that well-cared for and educated children will have a realistic chance of improving their own lives. In 1978, AID devoted more than $5 million to further research on the factors bearing on family size.

Because of differing traditions and social and religious values in the developing countries, attention to motivating factors is directed within a country-specific context in U.S. programs. But, the United States, together with other major donors, accepts certain basic premises:

—that the host country's commitment to population programs, and its active role in rural areas particularly, can make a significant difference in the birth rate;
—that the role and status of women can also be a significant factor in the birth rate;
—that adequate supplies of contraceptives are essential;
—that when health and nutrition programs are introduced—enabling a mother to nourish her children properly and assuring them survival to adulthood—fertility rates begin to decline;
—that when distribution/delivery systems are integrated—providing health care, nutrition, education and contraceptive supplies—the benefits to the poor are greater and more effective in dealing with the causal and symptomatic aspects of the problems;
—that effectively used, community based networks achieve acceptance and sustainability of health and family planning programs.

U.S. population efforts are directed primarily toward the poor countries. The poorer LDCs suffer most as growing populations strain their already severely limited resources. The United States addresses population problems of poor people in the more affluent countries of the developing world by supporting the efforts of multilateral donors and private voluntary organizations. Several of these middle income countries—like Mexico and Brazil, for example—continue to experience rapid population growth among segments of their populations which remain very poor.

AID is formulating Multiyear Population Strategies as a basis for future population programs. These are tailored to each country's needs and are currently being undertaken in Pakistan, El Salvador, Bangladesh, Morocco, and Egypt. A new format for the evaluation of population program performance has been developed by the Department of State, AID and the Treasury Department. This format will be used to examine the global effort to reduce population growth and evaluate the efforts of all donors and recipients. AID has allocated $185 million for population programs in FY 79. Funds will be used bilaterally and multilaterally in conjunction with the efforts of LDCs and other donors.

Changes in population growth rates are linked to changes in health and nutrition status. The health problems of the Third World are concentrated among young children and their mothers, especially around the time of birth. Over half of those who die in developing countries are children under five years of age. The striking point is that many if not most of these Third World children do not die of exotic "tropical" diseases, but of common respiratory and diarrheal infections. These repeated infections which kill or stunt the children of developing countries are compounded by malnutrition, too frequent pregnancies that damage both mother and children, the lack of health services, and shortages of food, water and income.

AID's health program consists of four components: health delivery systems, environmental health (water supply and sanitation), disease control, and health planning. AID efforts support preventive health care and the development of community based, primary health care systems which extend health, nutrition and family planning services to rural areas. Because of the adverse impact of morbidity on the learning ability and productivity of the LDC poor, health programs administered by AID focus on reducing illness and death caused by malnutrition, enteric (diarrheal) diseases, respiratory infections, and too-frequent pregnancies. The Agency, given budget limitations, is focusing initially on children and lactating mothers as these groups traditionally experience the highest rates of morbidity and mortality. The Agency has allocated $179 million for health programs in FY 79.

Ninety percent of the people in the LDCs lack access to safe drinking water and sanitary waste disposal facilities—major factors in the spread of communicable disease. The UN Water Decade, beginning in 1980, will stress the quantity and quality of drinking water and sanitation in poor countries and increased financial commitments from donor countries. U.S. programs support these worldwide efforts linking water supply and health. For example, AID development assistance funds will support clean water and sanitation projects in Morocco, Tunisia and Yemen; and projects in Egypt and Jordan will be funded by Security Supporting Assistance. Other integrated health, water and sanitation projects will be undertaken in Peru, Nicaragua, Honduras, the Philippines, Pakistan, Indonesia, Benin, Cameroon, Lesotho, Malawi and Upper Volta.

Tropical disease projects emphasize malaria, schistosomiasis and oncocersiasis control. Research programs are designed to promote a better understanding of the nature of tropical disease in developing countries. AID's disease control programs are concentrated in Africa and Asia.

Health planning is almost non-existent in many LDCs. Some governments still direct too much of their health budgets to sophisticated services that benefit a few. The United States responds with assistance efforts directed toward strengthening health care systems in the developing countries. This may include efforts to develop comprehensive health planning and delivery systems.

An AID project will be launched this year to examine the effectiveness of different mixes of health interventions in reducing morbidity and mortality in rural areas of selected LDCs. This work will be supplemented by extensive technical assistance to LDC ministries of health, particularly in the areas of (1) "integrated" programs; (2) the role of water supply and sanitation in health services; (3) the impact of other development sectors (especially agriculture) on health; and (4) better coordination of public and private health care services.

Although the Department of Health, Education, and Welfare (HEW) provides little direct development assistance in the traditional sense, HEW does provide extensive human and scientific resources to development programs. All of the agencies of HEW's Public Health

Services (PHS), for example, participate in programs and activities of the World Health Organization, provide technical expertise to AID programs, and cooperate in bilateral health agreements with a number of governments. PHS officials serve as consultants to WHO; many of them provide assistance to developing countries.

The new priorities of the Peace Corps will emphasize the areas of health, nutrition, food and water. The Peace Corps currently assigns about $9.3 million and 1,200 volunteers to health programs. This year, the Peace Corps adopted two initiatives affecting its future health-sector involvement: basic human needs programming and evaluation criteria have been developed and are being applied to Corps programs in all sectors; and, multidisciplinary training for volunteers prepares them to take account of the health and nutritional components in all sectors of development. Its program emphasis is on integrated maternal and child health, nutrition, health education and sanitation. The Peace Corps has made significant progress in donor collaboration, having formalized working agreements with AID, the Departments of Interior and Agriculture, and the World Bank; and it is near to concluding a comprehensive agreement with the World Health Organization (WHO).

Nutrition needs are woven into virtually all U.S. development efforts. Agricultural production, the major emphasis in our assistance program, is designed wherever possible to produce key nutrients for the poor in addition to stimulating output and raising incomes. Provision of food under the PL 480 program is designed to supplement food needs which production cannot meet and, particularly in Title III, to encourage other developmental investments. Careful attention is paid to the disincentive effect this may have on agricultural production, and short-term nutritional needs are balanced with the longer-term nutritional solution possible with increased agricultural production.

In the U.S. bilateral program, nutrition and agriculture are closely linked in much the same way as health and family planning. In FY 1979, $605 million was allocated to food, nutrition and agriculture and $315 million to health and family planning programs.

In addition, the combined efforts of the major AID funded private voluntary organizations (PVOs) in family planning, health and nutrition parallel those of the U.S. bilateral assistance program. AID has long cooperated with and channeled funds through these private voluntary organizations. Chief among the family planning PVOs are the International Planned Parenthood Federation (IPPF), Family Planning International Assistance (FPIA), and Pathfinder Fund (PF), the Population Council (PC) and the Association for Voluntary Sterilization (AVS). In FY 1978, AID gave approximately $7 million to PVOs for contraceptive supplies, and $46 million to support the dissemination of family planning information and services.

Notable among AID funded PVOs with health and nutrition initiatives are—in health—the National Council on International Health (NCIH), the Coordination in Development Consortium (CODEL) and, the Medical Assistance Programs International (MAP International); and—in nutrition—Meals for Millions (MFM), the League for International Food Education (LIFE), and the Save the Children/Community Development Foundation (SCF/CDF). Other voluntary agencies such as Catholic Relief Services, World Vision Relief Organization, Lutheran World Relief and CARE also work in the areas of health and nutrition.

PVOs work to develop health delivery systems, most often using existing community based service systems (the exception, Pathfinder, establishes systems in areas where they do not currently exist) to broaden education and information systems; to develop innovative, cost-effective, low technology programs that can be sustained by host countries when PVO support ends; to integrate family planning services into development programs, particularly those that focus on women; and, to provide technical information, training, evaluation, medical research and demographic information that improve program effectiveness. Most PVOs place emphasis on family planning as preventive health care within an integrated health services approach.

These agencies are most effective in complementing the efforts of the major donors. PVOs can operate outside official government channels, allowing them to take advantage of opportunities in the private sector. In countries where there is no bilateral program, or where host governments are sensitive to certain programs (family planning, for instance) or are not prepared to accept U.S. assistance, PVOs can be an alternative source of assistance.

Assistance is usually given to the poorest developing countries with urban and rural poor who do not have alternative access to affordable, routinely available family planning information and services. An exception to this rule is Mexico, a middle income country that—having no bilateral programs—is provided family planning assistance by the PVOs.

The resources of the U.S. bilateral program, however, are only part of a larger global effort. The multilateral dimension is substantial and encompasses the programs and efforts of the multilateral development banks (MDBs), the organizations of the UN system and various groups of developed and developing countries in addressing the problems of population growth and of inadequate health and nutrition.

*Multilateral Assistance*

The World Bank has written a comprehensive statement of its policies and procedures for lending in the population sector. Bank loans, including those of its "soft loan" affiliate, IDA, are made for projects that advance three major objectives:

—to maximize yield of economic benefits to development;
—to achieve and sustain development through fertility reduction;
—to encourage host governments to adopt national policies that relate fertility control with development objectives; to commit national resources to this end; and, to build infrastructure—both physical and administrative—to sustain programs.

Bank loans commonly provide more financing for hardware than software. Two-thirds of its population financing is invested in buildings for the delivery of family planning services and in training centers for personnel to administer expanding and decentralized family planning services.

The Bank's new directions in integrated population programs include:

—encouraging countries to take into account population considerations over the whole field of development planning;
—increasing its lending for population projects;
—introducing "population components" into rural, urban development and education projects;
—integrating health and nutrition activities into population projects where appropriate.

The World Bank is reviewing its operations and policy in the health sector. One of the principal questions being addressed is whether discrete projects for health care ought to be funded. At the present time, the review is in the preliminary stages. However, indications are that greater consideration will be given to health needs. Regardless of the conclusion, the World Bank will continue to lend on a major scale for projects in water, sewerage, agriculture, nutrition, education and population which improve the overall health and economic development of the target population. Therefore, although the Bank does not finance basic health services, it will support investments in health infrastructure and population projects which are directed toward health and nutrition, such as the current pilot nutrition components in its population programs in India, Jamaica and Malaysia.

In some recipient countries, the Bank may act as an intermediary through which bilateral agencies may channel aid to population programs. The cooperation of other donors—particularly in co-financing arrangements—enables the recipients to take advantage of more comprehensive planning, more concessional terms and more comprehensive projects.

The *United Nations Fund for Population Assistance (UNFPA)* is the focal point for multilateral population assistance in the UN system. It is funded through voluntary contributions and has a budget of $105 million for 1978. The United States channeled $28 million to support UNFPA programs. From its inception UNFPA stressed support of programs and projects that promote national self-reliance, regional cooperation and collective self-reliance in the population field. Particular attention is given to the immediate benefits of better maternal and child health to population control, but its efforts are also directed toward such concerns as human settlements and environmental problems. Loan and grant assistance of UNFPA is targeted at a wider range of objectives than the Bank's—population programs include fertility control, migration and population resettlement. The role of UNFPA is to support the national demographic policies of the LDCs.

*The World Health Organization (WHO)*, a specialized agency of the United Nations, is the world's primary directing and coordinating organization in international health. Its current goal is the attainment, by the year 2000, of a level of health for all citizens of the world that will permit them to lead socially and economically productive lives. In pursuing its mandate, WHO conducts programs dealing with global health problems from headquarters, but is also pursuing regional and country programs in active collaboration with developing countries which seek self-reliance in public health matters. WHO's prestige and nearly universal membership make it a major vehicle for U.S. health initiatives. Preparations are being made for a U.S. policy statement to be delivered at the WHO meeting in the spring of 1979. This, as well as other actions concerning international health policy, is being discussed by the Development Coordination Committee. The World Health Organization's funding for 1978 approaches $250 million. A large percentage of WHO's 1978 budget is allocated to general and family health services, health manpower development and to disease prevention and control. AID's 1978 direct contributions to WHO programs in the LDCs include $800,000 for Tropical Disease Research (TDR) and $179,000 for environmental health programs. Total U.S. contributions to WHO approach $2 million.

The *United Nations Development Program (UNDP)* is the world's largest multilateral program of technical assistance for development. It relies on other agencies (including WHO, UNICEF and UNFPA) to carry out most of its programs in health, nutrition and sanitation. About 5.5 percent of UNDP's expenditures are made through WHO. In 1978, UNDP's project expenditures for its own activities in health totaled only $3.6 million. However, it provided $18.3 million for WHO projects, $37.6 million for UNESCO and $100.6 million for FAO, although only a part of these sums went for nutrition, sanitation and health.

The *United Nations Children's Fund (UNICEF)*, another UN agency supported by voluntary contributions, undertakes a long-range effort to help mothers and children in developing countries, chiefly in health and nutrition. WHO is the chief executing agency for UNICEF in these areas, though UNICEF works closely with UNFPA and UNDP as well. It is important to note that specific projects and priorities for programs carried out under the auspices of these organizations are determined by the recipient countries in consultation with the international agency.

The *Food and Agriculture Organization (FAO)* of the UN provides assistance to the developing countries, helping them to analyze their national food consumption patterns and develop national nutrition services. Special care is taken to keep food innovations within the traditional dietary pattern of the developing countries. FAO's total 1978 budget for nutrition activities is $15.5 million. Nutrition (as contrasted with food production and marketing) comprises a relatively small part of FAO's activity. In 1979, the program of work for the next biennium will be developed, and the U.S. may wish to encourage more attention to nutrition-related work. Forty-two countries are members of the FAO, the principal agency executing agricultural programs for the UNDP.

The *World Food Program (WFP)*, in close cooperation with recipient country groups and government agencies, provides food assistance—commodities and cash—for emergency assistance and development programs, largely food-for-work projects. About 20 percent of PL 480 Title II commodities is programmed through WFP and the U.S. contribution constitutes about one fourth of total WFP resources. Saudi Arabia became a donor in 1977, and its current contribution is $55 million every two years. The European Economic Community has also begun making large annual commitments.

The *Organization for Economic Cooperation and Development (OECD)* is a non-UN organization of 24 industrialized nations of Western Europe, North America and Asia. In May 1978, the OECD, the DAC and the World Bank hosted a meeting on population issues. For the first time since the Bucharest meeting in 1974, representatives of eleven developing and thirteen developed countries, and heads of major aid agencies met to discuss the relationship of population growth and development. There was agreement that population is not solely a demographic problem, but concerns the quality of life and a balanced distribution in society. Although developing countries differed in perceptions of their particular population problems, they all agreed that a reduced population growth rate can only be dealt with in the broader context of improved human welfare and socio-economic development.

Again in May, at the informal meeting of the DAC on Aid for Rural Development in a Basic Needs Perspective, representatives from the developed and developing countries, and international organizations discussed health as a consequence of and a contribution to the development process. They determined that ". . . the health sector's contribution to the basic needs strategy for rural development is best embodied in the concept of primary health care." Effectiveness of primary health care is determined by the appropriateness of services offered and the scope and effectiveness of the delivery support system. It is in the area of developing more effective delivery support systems that donor assistance is required. This includes transport and supplies, supervision and in-service training, management training, and on-going evaluation for rapid program adjustments which may be necessary. The integration of health with rural development programs is a strategy increasingly stressed during 1978. Developing countries are accelerating their efforts to build their own capability and have enlisted donor support for research, training, and management in developing health support systems and institutional and administrative infrastructure. Throughout the DAC discussions this year, concern was raised for improved donor coordination in all development assistance. It is likely that this issue will be afforded increasing attention in the coming year.

*Donor Coordination*

There are administrative constraints to effective development programs. Some relate to the inadequate administrative capacities of the LDCs, others to insufficient coordination of donor assistance. Through continuing dialogue, however, progress is made toward improving the complementarity of donor assistance through innovative and flexible programming arrangements which allow each donor to capitalize on its strengths and to rely on the strengths of other donors in areas where one might be less capable. The varying emphasis of the donors are directed toward the varying needs within the LDCs. The combined efforts of donors provide the infrastructure, the commodities, the training and the research needed for LDCs to build and sustain national delivery systems for population, health and nutrition projects.

Within the U.S. Government, agencies with functions related to health are working together in a recently formed International Health Strategy Subcommittee of the Development Coordination Committee (DCC). Co-chaired by HEW and AID, the committee is addressing the global nature of health problems, the need for comprehensive and appropriate strategies and programs, and for coordination of efforts within our own government, with other donors and the LDCs. It is currently drafting a statement of principles to be used as a basis for U.S. international health policy, reviewing legislative initiatives, and participating in drafting a U.S. policy position to be presented at the World Health Assembly in the spring of 1979. In the near term, the subcommittee will identify and attempt to resolve major issues concerning the effectiveness of international health programs.

*Trends and Prospects*

Several major trends in the population field have emerged since the World Population Conference held in Bucharest in 1974. There seems to be an increasing desire to enlarge both the scope and magnitude of population programs. The perceptible decline in fertility has been encouraging—assuring donors and LDCs that action can make a difference—and has stimulated further efforts. Increasing attention to primary health care and to the integration of health components into a broad range of development activities is likely to continue. Health needs, once seen from a primarily humanitarian aspect, are increasingly viewed as a productive resource need.

Today, awareness of population and health problems is expanding because their intimate relationship to larger socio-economic issues is clearly seen. There is agreement that declining fertility alone will not ensure that the basic needs of the world's poor are met. That fewer children are born is not enough. We must ensure that the health, nutrition, education—and thus the productive capacities of the poor—are improved, that the gains of economic development are shared, and that the human resource is enhanced. This is the focus and purpose of all development.

## B. Education

*Education and Development*

The permanent progress or socio-economic development of any nation must be based on an education system to which all levels of society have access. Education is closely related to labor productivity in all fields and the quality of life of any people. It is particularly important in agriculture, the economic base for most of the developing countries, but it also makes possible needed diversification. Education programs are essential to eliminating illiteracy, to resolving the problem of overpopulation through birth control measures, to ensuring good health practices, to developing employment skills, and effecting a more equitable distribution of income.

In the case of agricultural productivity, numerous studies provide persuasive evidence that farmers with some primary education are more productive than those with none. This is particularly true for the major cereal crops wheat and rice, which form the basic diet of the majority of the people of the developing world, and the impact of education on agricultural productivity holds regardless of farm size. In addition, the effect of education on agricultural productivity increases as modernization occurs.

Population growth is also related to education. The bulk of the research on the interrelationship indicates a negative correlation between education and fertility, but does not indicate clearly why this is so. It has been suggested that education affects a woman's attitudes toward child-bearing. With greater expectations for herself and aspirations for her children but limited financial resources, a woman is concerned about the family's ability to realize these expectations as the number of children increases. Furthermore, education enhances her own ability to find employment outside the home.

In developing countries, education is often the single most important consideration in predicting a person's socio-economic status. While the "educated unemployed" can certainly be found in LDCs, it is nevertheless generally true that the distribution of educational opportunities influences the distribution of both employment and income. An important corollary is that the greater the share of the education budget devoted to primary education, the larger is the redistributional impact. Therefore, expenditures on primary education are more likely to result in ultimate redirection of resources from the rich to the poor than other levels of education.

However, education alone cannot provide employment opportunities and income. Investments in education should be complementary to investment in agriculture, health and family planning.

*Securing Access to Education*

In the 1960s, many less developed countries lacked adequately trained individuals to plan, create and administer effective programs for the development of a modern economy. The developing countries and donor agencies approached this problem by creating more opportunities for secondary and post secondary education for LDC participants.

Despite the emphasis on higher education, however, primary growth expanded rapidly. The 1960s' average annual growth rate in primary school enrollments was around 6 percent. This impressive rate of growth meant that, in general, primary education was able to keep ahead of population expansion. The percent of the relevant age group enrolled in primary education rose from 36 percent in 1960 to 75 percent in 1974 in Botswana, 30 percent in 1965 to 65 percent in 1974 in Guatemala, and 30 percent in 1965 to 47 percent in 1973 in Pakistan. More children of secondary school age attended school, too, and adult literacy increased.

**TABLE 9**

**Developing Countries: Growth of Education, 1960-75**
(Median values)

| | Percentage of Primary School Age Children Attending School | | Percentage of Secondary School Age Children Attending School | | Percentage of Adults Who Are Literate | |
|---|---|---|---|---|---|---|
| | 1960 | 1975 | 1960 | 1975 | 1960 | 1974 |
| Low Income Countries | 30 | 52 | 2 | 8 | 10 | 23 |
| Middle Income Countries | 79 | 97 | 12 | 35 | 61 | 63 |

SOURCE: World Development Indicators, Table 18.

Nevertheless, developing countries were unable to provide educational access to large numbers of their school-age population. By 1973, an investment of $21 billion in public education by developing countries reached less than one out of every three children of school age. In addition, many of these countries had reached fiscal limits in their ability to devote further resources to education. (Half of the LDCs are according 18 percent or more of their national budgets to education.) The rate of growth in primary school enrollment began to decline dramatically as countries reached their fiscal limits. By the mid 1970s, the growth in primary school enrollment was down from around 6 percent per annum to about 4 percent—a rate barely sufficient to keep pace with the rate of increase of the school-aged population; and in some countries, the gains of the 1960s were slowly beginning to erode.

In the early 1970s, educational programs were the subject of reexamination, reflection, and growing pessimism. The following factors were apparent:

—Since highly trained manpower was in scarce supply, LDCs accorded priority to higher education—but neglected the importance to manpower development of vocational and technical training.

—The industrial and public sectors were unable to expand rapidly enough to provide jobs for the growing pool of college and secondary school graduates.

—If the rural agricultural sector were to play a key role in development, the educational system would have to be structured to meet this sector's needs. While not precluding individuals from moving up the educational ladder, primary education relevant to the needs of the people in rural areas who rely on the agricultural sector for employment was essential.

—The heavy investment in higher education was drawing valuable fiscal resources away from primary education. Financing the higher education of one individual, given scarce resources, had to be weighed against educating 10 or 20 individuals at the primary level.

Economists and educators, therefore, sought viable educational alternatives for developing countries. Without a rapidly expanding economy, it would be financially impossible for many countries to continue to expand their educational systems by relying on conventional or traditional means. If expansion were to occur, ways needed to be found to increase the number of people reached for each dollar invested in education. However, limited funds made it difficult, if not impossible, for many developing countries to invest in experimental activities to develop new approaches. This has become an important undertaking for donor agencies.

### *AID Experimental Activities*

Donor agencies have provided the technical and financial assistance for activities that explore new and improved ways to provide education to rural populations in developing countries. For example, AID has played a key role in the development of non-formal education and communications technology for educational purposes.

In El Salvador, the use of educational television in schools under AID programs made it possible to reduce costs, using double sessions. In addition, television helped to introduce curriculum more relevant to everyday life. As a result of this innovative approach, learning achievement increased by 20 percent by the end of the ninth grade. Similar results using radio were achieved in Korea. In Nicaragua, a radio project resulted in impressive gains in math test scores, and contributed to the reduction in school dropouts and repeaters. The government planned to expand the radio math program nation-wide.

Reliance on communications technology has marked many of AID's achievements in both formal and non-formal education. The Basic Village Education project in Guatemala combines radio and village monitors to provide farmers with information to improve their agricultural practices. It neither assumes nor requires literacy. In Indonesia, an AID project uses the services of parents and older students to assist teachers in the instruction of younger children. This combination has allowed the student-teacher ratio to increase to 250 students per teacher.

A research grant with the University of Massachusetts led to the establishment of several small-scale, productive, rural industries which provide employment for rural people in Ghana. AID's non-formal education project in Ecuador mobilized villagers' volunteer efforts to obtain government assistance for rural infrastructure.

Future education assistance will build on the following lessons learned from such experimental activities:

1. If more rural people are to be reached by educational systems, alternatives to and improvements in traditional schooling must be found. The key to greater access for the rural poor is increased productivity for the resources invested in education.

2. Communications technology, particularly radio, has demonstrated its capacity to improve the efficiency of formal education and to allow more people to have access to educational, health, family planning, and agricultural information.

3. Efforts to expand access to basic life skills (e.g., hygiene and agricultural practices) need not be predicated on the attainment of literacy. The failures of mass literacy programs such as the Experimental

World Literacy Programme suggest the need to reconsider the development role of literacy.

4. Education is important to the achievement of objectives in agriculture, health, and family planning. Policy and planning in education need to take these interrelationships into account.

5. The distribution of educational opportunities plays an important role in the distribution of employment opportunities.

6. Non-formal educational programs tend to be short term and designed to meet specific training needs. They should not be viewed as a substitute for formal education whose objectives are broader and more general.

*Peace Corps and Basic Human Needs*

The Peace Corps is reorienting its "knowledge skills" programs to accord with a basic human needs strategy in countries with the greatest need. It is placing greater emphasis on projects aimed at less formal, more basic and appropriate educational activities for working-age adults (especially including women). It also uses teachers or trainers in specialized subjects related to development where shortages exist. More volunteers will be working in primary education and literacy training, and fewer in secondary and higher education. The Peace Corps will focus on rural areas, improving access to educational opportunities for those who have not previously benefited from them. Funds permitting, it will seek to introduce non-formal education linked to self-help village development.

*Report of the World Bank Panel on Education*

The External Advisory Panel on Education to the World Bank issued its report at the end of October 1978. The Panel had been asked to ". . . examine and evaluate the Bank's past and current activities in education and training . . . [and] make recommendations for the conduct of Bank operations in this sector in the future." Since the World Bank is, after France, the largest source of assistance to education—$352 million, plus another $66 million in education components of projects in other sectors—the Panel's findings command particular interest.

In the early years, after the IBRD approved its first education credit in 1963, the Bank's main contribution was to finance buildings and equipment needed in secondary education, thus increasing the supply of trained manpower. Later, the Bank paid more attention to basic education, and loans began to provide for increased amounts of technical assistance. Currently, the Bank has been exploring non-formal education. Some figures tell the story. Lending for secondary education, 84 percent of the total during 1963-69, was down to 42 percent in 1975-78; primary and basic education, nil earlier, accounted for 14 percent in the latter period; and non-formal education jumped from 4 percent to 17 percent.

The Panel's report notes that the focus on equity in the last decade is an especially powerful idea as applied to education. There is a strong tendency for the children of favored groups to enjoy the best educational opportunities. More education in rural areas would serve equity (as well as other development) objectives; as would increasing educational access for females. Achieving equity in education requires diffusion of successful educational participation—not just accessibility—as part of a process of social change. Education activities may contribute to the organization of the unorganized as a means for community change. The Panel concludes that "it will require much thoughtful and skillful cooperation between Bank and borrowers to translate a general commitment to equity into strong progress in that direction".

IBRD lending in education has been generally welcomed by LDCs. The Bank's financial resources have permitted improvements that otherwise would have had to wait. Technical assistance has helped to design and implement changes in traditional methods. Follow-up has helped to keep projects on course.

But, the Panel identifies several problems which the IBRD confronts in lending for education and training:

—LDC needs and opportunities are very diverse, conditions change rapidly, and education is politically sensitive.

—The analytical base is very inadequate and analytical methods for designing and assessing projects are not widely agreed upon.

—The traditional IBRD approach—financing physical facilities to be completed in less than five years—is inappropriate for education and training projects.

—Staff who combine strong professional competence in education with the ability to analyze program alternatives are scarce and hard to attract.

No assistance agency, in the Panel's view, is now providing sustained, high-quality advice and training sufficient to steadily raise the LDC's capacity to improve and manage educational systems and institutions. For the IBRD to do so, it would have to adopt an agenda including:

—Support for activities designed to increase efficiency and extend accessibility of primary education;

—Determination of the most cost-effective ways to relate general and technical education to each other and to the world of work;

—Exploring non-formal kinds of education and training to help needy people improve their conditions;

—Support for projects to diversify post-secondary education and increase its relevance to development;

—Support for long-term programs to help LDCs acquire a capacity for educational management and analysis; and

—Operational and organizational changes, such as frequent use of "first-phase projects" as predecessors of large loans, greater emphasis on content and outcomes of education and training, increased attention to research and analysis, and—related to these changes—decentralization of education staff to field locations.

### *Other Multilateral Activities*

Inter-American Development Bank (IDB) education programs give explicit recognition to the different stages of development and individual priorities of IDB member countries. The more developed (Mexico) have focused on scientific and technological education, while the less developed have been especially concerned with basic education in rural areas (Haiti). In both groups of countries, the IDB supports skills training projects (Bolivia, Costa Rica, Honduras, Paraguay, Peru).

The United Nations Educational, Scientific, and Cultural Organization (UNESCO) is the major agency inolved in education activities within the UN system. It has supported work in such fields as human rights, education, environmental education, access to education, adult, vocational and technical education, educational net-working systems, pre-school education and related areas. UNESCO has done some innovative and experimental work. A major contribution has been its work on education for women and girls. The publication *Learning to Be* gave encouragement to new directions in education, and especially to a further democratization of education. Other new approaches are being carried out in Central America.

However, much of UNESCO's technical assistance activities concentrates on the more traditional types of projects such as teacher training, curriculum and textbook development, and education planning. UNESCO has always had an interest in promoting literacy programs, even though its own evaluation of the Experimental World Literacy Program indicated serious problems with the mass literacy approaches. To date, UNESCO has been reluctant to address directly basic human needs considerations.

The UN Children's Fund (UNICEF) emphasizes child development and the relation of basic education to other basic services required for child development. It concentrates on helping LDCs to extend basic education to educationally deprived children of primary school age and to young adolescents who have missed schooling—particularly in rural areas and slums and shanty towns. Aid for teacher training has been a major part of this assistance. In addition, UNICEF provides aid for geographical extension of school systems as part of rehabilitation following warfare or natural disasters. UNICEF also supports non-formal education, especially for girls and women, through community centers, youth organizations, schools outside formal systems, and the media.

Effectiveness of UNICEF education programs can be strengthened, according to its Executive Director, through better relating of rural education to rural development and urban education to other urban services, and improving education and literacy training for adolescents and women. UNICEF efforts benefit from coordination with the World Bank and UNESCO.

### *Conclusion*

The LDCs and assistance donors have become more sophisticated in their approaches to educational development—but much remains to be learned. We know more than we did about the relationships of education to agricultural productivity, population growth, and income distribution. We have learned about the limitations of programs emphasizing physical facilities and higher education. The major assistance agencies are seeking to reflect basic human needs concepts in program development and implementation. These are difficult enough to articulate, and harder still to carry out; but, programs increasingly emphasize education which is open to the poor majority, related to development needs of rural life and available jobs, and integrated with goals in agriculture, health, and family planning. The realization that there is still much that we do not yet know or understand about educational development underlies the recent experimentation and new techniques (such as communications technology) for achieving the break-throughs required for major progress.

Issues to be addressed in the future include: the mix of, and relationship between, formal and non-formal education; the weight to be assigned to secondary and post-secondary education, and their reorientation in framing basic human needs strategies; and, the most appropriate ways for improving educational management and analysis, and for increasing cost effectiveness.

### C. Women in Development

In agricultural regions of developing countries, women have been major—often predominant—contributors to the basic productivity of their communities. Yet, these women have been denied the status and participation in their societies and economies that their contribution merits.

In the process of modernization, this situation has worsened with the breakdown in traditional landholding patterns, the imposition of new legal systems, and the introduction of technological innovations available to and dominated by men. Developers have defined productivity strictly in terms of money, underestimating the importance of women's economic contribution. Political participation and decision making has remained a male-dominated province.

In the course of development, conditions and personal opportunities for the female frequently have deteriorated. Women lag far behind in literacy, and chances for formal education or specialized training are far more limited for women than for men. Studies indicate that under-educated women are less likely to see that their children receive formal education. These women cannot pass on to their children—informally—information or training to broaden their children's horizons because their own are limited.

In many countries, women grow from 40 to 80 percent of the domestic food supply, yet often do not receive the calories needed for proper nutrition. Though they often become *de facto* heads of households—as more and more men migrate to mines, oil fields, plantations or cities in search of jobs—their abilities to support these households are limited. Financial affairs customarily remain in the hands of men, and women often cannot gain title to land, obtain credit or inherit property. Women who migrate to cities do poorly; lack of job skills and mobility places them at the bottom of the labor ladder.

Women's status varies from country to country and even within countries, depending upon social class, education, religion, cultural heritage and the country's level of development. Yet, studies demonstrate that in all societies, including our own, women and men have unequal access to power, opportunity and resources. In theory, few dispute the fact that the gaps between men and women's options must close so that women may become truly equal partners in the development process.

*Women in Development—An International Concept*

The existence of the Percy Amendment to the Foreign Assistance Act, the UN Declaration of the Decade for Women (1975-85) with its World Plan of Action, and the International Women's Year (IWY) Conference in Mexico City (1975) indicates that the role of women in development is not only a U.S. concern, but an international concept and activity. The thrust of these initiatives, and the U.S. response—through such channels as the AID Women in Development (WID) Program and the Peace Corps—is to enhance the status of women as partners—equal to men as participants and beneficiaries—in the development of national economies and societies. Attention in AID, and in a variety of international fora, increasingly focuses on the impact of women on the development process. Among donors, host governments and international organizations, the importance of women's concerns and needs is recognized. The 1976 World Employment Conference Report, *Employment Growth and Basic Needs* states:

*. . . There are . . . two facets to a basic needs strategy for women in developing countries. One is to enable them to contribute more effectively to the satisfaction of their families' basic needs, within the framework of their traditional responsibilities. The other, which is a fundamental need of the women themselves, is to ease their work burden, while furthering their economic independence and their more equitable integration into the community . . .*

Nevertheless, in most developing countries in Africa, Asia, Latin America and the Near East, women and girls traditionally are undereducated. Access to knowledge and information is a basic condition for growth for nations and individuals. Denying women access to education constrains socio-economic development. Further, a society in which women are restricted by law and/or tradition from making the most elementary choices about their lives, and are denied the education that would make those choices possible, cannot claim to fully support human rights. On the other hand, the success of the overall development effort can be increased by educating these women and integrating women's components into health, nutrition, population, agriculture and rural development programs; training women as efficient, program sustaining workers; and including women as project designers and managers.

*The U.S. Approach*

Sections 108 and 118 of the 1977 Foreign Assistance Act mandate the integration of women into U.S.-funded assistance programs, and into those programs of the international agencies to which the United States contributes. In addition, the Peace Corps Act of 1978 extends the mandate to the U.S. Volunteer Program. Within AID, programs support improving the status of women in the national economies and societies of developing nations and focus chiefly on the needs of poor rural women. Specific attention is given to the role of women in food production, and to the problems created by modernization as they impact on women and girls. A major objective of AID's programs is to integrate women's needs and concerns into all projects.

Section 104(d) of the Foreign Assistance Act provides an additional mandate for giving priority attention to programs that integrate women into LDC economies.

Among the major factors believed to have a significant impact on fertility are: women's range of opportunities; alternatives to early marriage, and early and frequent childbearing; access for women and girls to education; opportunities for women to receive training that will lead to employment; and, health and social services to assist women in the many tasks they assume as wives, mothers and citizens.

AID's women in development policy is flexible, adapting to local conditions and situations by identifying, with host governments, opportunities for constructive change in the long and short term. Development policy, strategies and activities center on three basic objectives: education and training, participation and organization, and employment and production.

*Policy Implementation*

AID implements its policy through a two-track system: one track addresses women-specific or women-only projects where "catch-up" with men is indicated. The second track addresses women's projects as components of overall development efforts. Women-specific projects are designed to help women learn skills that men already have, or to build their capacity. Women-inclusive projects are deliberate efforts to increase the participation of women in all sectors of development.

Education and training receive first priority. Access to education is not only a basic human right; it is a key to social and economic progress. Therefore, the primary goals of AID's women-in-development programs are: increased literacy and civic education of women—especially in rural areas; coeducational, technical and vocational training in industrial and agricultural sectors; equal access to education at every level; and compulsory primary education for all and prevention of school dropouts. The following table demonstrates the importance given education and training in AID's WID projects.

There are indications of growing interest in programs to upgrade the status of women in LDCs through training. Participants in WID projects receive four basic types of training: training at accredited institutions in degree and non-degree programs; observation training, usually for higher level participants to update their skills; on-the-job training; and, specialized programs to meet specific training needs. Country-specific training is designed along economic and social development

## TABLE 10

**Emphasis in A.I.D. Women in Development Projects—FY 78**

Some projects have more than one emphasis, i.e., the same project may stress health and training. Therefore, while the number of *projects* totals 128, the number of *emphases* totals 199.

| | Agriculture Rural Development | Education Training | Employment Income | Women's Orgs. Participation | Health Nutrition | Miscellaneous |
|---|---|---|---|---|---|---|
| *Bureau* | | | | | | |
| Africa | 9 | 13 | 6 | 6 | 7 | 14[a] |
| Asia | 13 | 9 | 5 | 3 | 8 | 8[b] |
| Latin America | 10 | 30 | 12 | — | 12 | 12[c] |
| Near East | 1 | 7 | 4 | 4 | 6 | — |
| TOTALS | 33 | 59 | 27 | 13 | 33 | 34 |
| (%)[d] | (17) | (30) | (13) | ( 7) | (17) | (17) |

a) 2 handicrafts, 3 cooperatives, 2 technical assistance, 1 research, 4 appropriate technology, 1 credit, 1 home economics
b) 3 technical assistance, 2 cooperatives, 1 credit, 1 handicrafts, 1 research
c) 6 credit, 2 cooperatives, 3 handicrafts, 1 technical assistance
d) adds up to more than 100% because of rounding

SOURCE: U.S. Agency for International Development, WID office

sector lines. One program in Portuguese-speaking Africa is designed to meet priority requirements for training in agriculture, health, education, rural development and public administration. Of the 198 participants, 31 are women. In Togo and Liberia, Housing Guaranty funds are added to funds in the Improvement Program for the Urban Poor (IPUP) to provide education programs in health and sanitation practices; to provide improved access to credit and management training for the development of small business enterprises conducted by women in both trade and cottage industry production; and, to provide community facilities for education, job training and child care.

To assist the poor majority in rural areas—women, girls, and the old who are left behind as men migrate to cities—and to deter the migration of men and women to urban centers, enlightened, intensive rural development is needed. In this effort, women as agricultural producers are a major factor. If this approach is to succeed, legal restrictions on women's access to land and credit will have to be removed.

Women's organizations are an important vehicle for amplifying the two-track system in the area of participation and organization, specifically through capacity building. Existing in every community and at every level of society, these organizations can provide the opportunity to discover, develop and exercise talents and participatory skills. Where women's groups already operate small projects on a village level, donors can build on this existing capacity. On the bilateral level, AID missions, possibly through PVOs, can forge these small projects into larger ones as in the Upper Volta and Africa Regional projects. This offers cost-effective programs that meet the requirements of both bilateral and multilateral donors.

During 1978, AID sponsored numerous conferences and seminars on women in development. Among these were the January 1978 Tucson Conference on Women and Food which resulted in the formulation of an August training session for women from land-grant universities, and the U.S. National Women's Conference in Houston.

AID currently produces, collects and disseminates useful reports and other resource materials on women in development to missions, universities and other institutions in the LDCs. Another initiative for the AID WID program is the expansion of technical assistance capabilities to missions and WID centers. In addition, the Agency is preparing a major policy paper on education that highlights the education and training needs of women and girls in the LDCs, and their impact on development efforts.

The Peace Corps contracted with a private firm to provide technical assistance in WID programming and training to a number of its country programs during 1978, and will design a WID training model for all volunteers, to be tested during 1979.

*The Multilateral Dimension*

Realization of women's potential in the development process is growing in the donor community. Since 1975 (IWY), a series of meetings have been held by the donor nations under the auspices of the Development Assistance Committee of the Organization for Economic Cooperation and Development. At the March 1978 informal meeting in Paris, two U.S. presentations were made: one was a report on the work of the International Center for Research on Women (ICRW) in measuring the extent and impact of female-headed households in developing countries; the other was a report on AID's women and credit project in Upper Volta.

Such organizations as FAO, WHO, UNIDO, UNICEF, and UNESCO within the UN system are working on women in development issues as well. Special initiatives are scheduled to include women both as an issue and as participants. These include such international efforts as the Year of the Child (1979), the UN Conference on Science and Technology, the FAO World Conference on Agrarian Reform and Rural Development (July 1979), and the 1980 Mid-Term World Conference on the UN Decade for Women. It is expected that these forums will result in collaborative strategies to further the goals of women in development. On May 12, 1977, the UN Economic and Social Council passed Resolution 205(g)—initiated by the United States—to train women in developing countries on how to write grant proposals so more women would qualify for project development money. Another arm of the UN system, the UNFPA stresses that successful population programs require the active involvement and full participation of women in program development, project formulation, implementation and evaluation, calling special attention to the "vital link between the status and roles of women and population activities."

The World Bank also takes account of the role of women in development. Since January 1977, the Bank has taken steps to ensure that—within a country-specific context—all projects are examined to determine how the inclusion of women impacts on the broad spectrum of economic costs and benefits before loans are implemented.

*Trends and Prospects*

U.S. development assistance policy includes an awareness of the unique and valuable contribution women can make and have made in national growth. As an expression of its human rights policy, the U.S. Government supports both domestic and international efforts to increase this awareness and to promote the full integration of women as partners in economic growth and development.

The decade of the 1970s has witnessed what may be the most significant trend in the emergence of women and of women's issues on an international scale. It is only the beginning. The trend set in the seventies is sure to continue, giving women increasing prominence in national development issues.

# CHAPTER VIII

# The Use of Natural Resources for Development

## A. Food and Agriculture

*The Current Situation*

As was indicated in Chapter II, agriculture is a crucial factor in most LDC economies providing sustenance and employment for the majority of their populations. Adequate agricultural production is a prerequisite for the health of the rest of the economy as well as for the people who depend on it for income and food. For the third consecutive year, good crop weather prevailed throughout most of the world, producing bumper harvests. Total world food production in 1978 increased nearly 3 percent, with developed countries a little above that rate and developing countries close to 2.5 percent (Table 11). Grain stocks are estimated at a near record 185 million tons, but this represents only 16.5 percent of total annual world consumption, well below the 1960s levels of consumption.

While good weather improved global food production and the rebuilding of stocks in several important producing countries, the 1978 gains in food production were not shared by all developing countries. Food production was stagnant or declined in the poorest of developing countries. There was again a serious food emergency in the Sahelian zone of Africa. The global information and early warning system of FAO warned that relief action was required to assist 26 developing countries mostly in Africa facing abnormal food shortages. Food production in Latin America was adversely affected by extremes of wet and dry weather. Harvests in Vietnam and Laos were badly damaged by drought and insect infestation. The improvement of per capita food production in developing countries for the last three years did not continue in 1978. As a matter of fact, over half of the low income developing countries had negative or near zero per capita food production.

The stagnation of food production in developing countries is not a transitory phenomenon. Although the growth of total food production was about 3 percent in the 1960s, the increase in per capita food production was less than 1 percent. During the period 1970 to 1978, the growth rates of total food production slowed

## TABLE 11

**Selected Indices of World Agricultural and Food Production (excl. China)**

(1961-65 = 100)

| | Total Agricultural Production | | | | | | Total Food Production | | | | | | Per Capita Food Production | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1973 | 1974 | 1975 | 1976 | 1977 | 1978* | 1973 | 1974 | 1975 | 1976 | 1977 | 1978* | 1973 | 1974 | 1975 | 1976 | 1977 | 1978* |
| Developed Countries | 131 | 129 | 128 | 134 | 137 | 141 | 133 | 131 | 130 | 137 | 140 | 144 | 120 | 118 | 116 | 121 | 122 | 125 |
| United States | 122 | 117 | 126 | 129 | 138 | 134 | 128 | 122 | 134 | 137 | 144 | 142 | 115 | 109 | 118 | 120 | 125 | 123 |
| Canada | 123 | 112 | 127 | 138 | 141 | 142 | 124 | 112 | 128 | 143 | 142 | 144 | 106 | 94 | 106 | 116 | 114 | 115 |
| USSR | 155 | 145 | 130 | 153 | 149 | 162 | 155 | 144 | 128 | 153 | 147 | 161 | 139 | 128 | 113 | 133 | 128 | 138 |
| Japan | 110 | 110 | 115 | 109 | 117 | 115 | 110 | 111 | 115 | 109 | 117 | 115 | 98 | 97 | 100 | 93 | 99 | 97 |
| Developing Countries | 130 | 134 | 141 | 145 | 151 | 154 | 132 | 135 | 145 | 149 | 154 | 158 | 103 | 103 | 107 | 108 | 109 | 109 |
| East Asia | 145 | 149 | 154 | 166 | 170 | 174 | 141 | 147 | 154 | 165 | 168 | 171 | 110 | 112 | 115 | 121 | 120 | 119 |
| South Asia | 129 | 124 | 138 | 135 | 147 | 152 | 130 | 124 | 140 | 137 | 150 | 154 | 104 | 97 | 107 | 103 | 110 | 111 |
| West Asia | 129 | 144 | 154 | 169 | 166 | 171 | 127 | 141 | 154 | 168 | 165 | 172 | 96 | 104 | 110 | 117 | 112 | 113 |
| Africa | 119 | 126 | 127 | 129 | 126 | 129 | 119 | 126 | 129 | 131 | 127 | 131 | 93 | 95 | 95 | 94 | 89 | 89 |
| Latin America | 130 | 138 | 142 | 145 | 153 | 155 | 138 | 145 | 151 | 158 | 162 | 166 | 105 | 108 | 109 | 111 | 111 | 111 |
| World | 131 | 131 | 132 | 138 | 142 | 145 | 133 | 132 | 135 | 141 | 144 | 148 | 115 | 113 | 113 | 117 | 118 | 120 |

* Preliminary

SOURCE: U.S. Department of Agriculture

down to 2.9 percent, or only 0.3 percent per capita. Even more marked than the changes in growth rates over the period is the substantial year-by-year variability.

The food situation in developing countries has several dimensions. One that has attracted much public attention is the market availability of food grains that provide at least two-thirds of the basic calorie intake in most developing countries. Shortfalls in world grain production in 1972-73 and 1974-75 were main factors resulting in a sharp rise in food grain prices (Table 12).

**TABLE 12**

**Total World Grain Production**
(million metric tons)

1970-1979

| Year | Total | Wheat | Coarse Grains | Rice |
|---|---|---|---|---|
| 1970/71 | 1,203.2 | 315.4 | 576.0 | 311.8 |
| 1971/72 | 1,294.0 | 348.7 | 627.6 | 317.7 |
| 1972/73 | 1,260.7 | 343.4 | 609.1 | 308.2 |
| 1973/74 | 1,370.9 | 372.2 | 667.8 | 330.9 |
| 1974/75 | 1,321.9 | 357.1 | 628.0 | 336.8 |
| 1975/76 | 1,355.0 | 350.0 | 644.4 | 360.6 |
| 1976/77 | 1,466.3 | 415.1 | 702.1 | 349.1 |
| 1977/78 | 1,441.5 | 381.5 | 693.8 | 366.2 |
| 1978/79 | 1,531.4 | 422.5 | 732.4 | 376.5 |

SOURCE: U.S. Department of Agriculture

A second dimension of world food problems is that most countries with growing grain deficits are low-income countries and have limited ability to purchase their needed food in the world market because they lack adequate foreign exchange. These countries are able to increase food imports only by cutting back on imports of capital goods and other modern inputs required for viable economic development. Most of these countries are located in Asia and Sub-Saharan Africa, and it is in these areas that the core of food problems and hunger are found.

For these low-income countries, the options for meeting present and future food requirements are to rely on either larger concessional food imports or to expand domestic production. The first alternative can be politically difficult and of high risk in light of the disappointing growth in global food assistance in recent years. The second alternative is technically possible in many countries, and is a premise upon which U.S. agricultural assistance is based. An important implication in this dimension of the global food problem is the declining number of food exporting countries and the emergence of the United States, Australia and Canada as the principal countries in the world which can be relied upon to produce exportable surpluses of food grain. On the basis of present trends, the concentration of grain for export will continue.

A third dimension of the food situation is that regardless of global food production levels, widespread hunger and malnutrition are increasing because food does not always reach those who need it most. The poorest people often have neither the land to grow food nor income to purchase it. In the early 1970s, more than 70 of 128 developing countries reported national calorie consumption levels below international nutritional standards, with serious undernourishment and hunger occurring in Africa and parts of South East Asia. The World Bank estimates that the number of hungry ranges from 500 million to one billion, with the greatest concentration being in about 65 nations. The persistence of hunger and malnutrition, even where food supplies meet market demands at reasonable prices, is one of the most challenging problems facing developing countries and international development assistance.

*The Outlook*

Despite bumper harvests and growing stockpiles of grains in the world, and the decline in most farm commodity prices from the highs of three years ago, the long term food prospects in developing countries remain precarious. Recovery from the crisis conditions of 1972-73 should not lead us to assume that world food problems have been resolved. Fundamental problems prevailed long before 1972. The return after 1974-75 to more ample supply in the international food situation masks the imperfections of the world food system. Food deficits in many developing countries are already large and will get larger. The quantitative results of several studies which project food production in relation to food requirements in developing countries over the next decade vary according to the underlying assumptions about rates of increase in production, population, income and consumption. Nevertheless, the studies concur in projecting a serious gap between food production and requirements in developing countries. The most widely cited projection, prepared by the FAO for the World Food Conference, estimates that the average annual grain deficit in developing countries could reach 85 million tons per annum by 1985. More recent projections made by the International Food Policy Research Institute (IFPRI) indicate that the shortfall in staple food crops will be in the 120 to 145 million ton range by 1990; this is over three times the shortfall of 37 million tons in a relatively good production year such as 1975. The USDA projects imports of food grains by developing countries will increase to between 49 and 71 million tons by 1985. This range compares with 18 million in the 1970 base and recent levels of 30-35 million tons.

More than two-thirds of the total deficit is projected to be in countries with per capita GNP of less than $300, rising from 12 million tons in 1975 to 70-85 million by 1990 according to FAO projections. Just to maintain consumption at the 1975 per capita level would require 35 million metric tons more than projected production. Even if exportable food surpluses can be produced at sufficient levels in other parts of the world, the food deficit countries are not likely to have the foreign exchange to import such quantities commercially on a sustained basis.

The growing dependence of developing countries upon the developed countries for their food imports can be demonstrated in the pattern of world trade in agricultural products. In 1956-60 the developing countries received only 48 percent of their agricultural imports from the developed countries. By 1971-75, the proportion had increased to 57 percent, and recent trends in world agricultural trade indicate that increased reliance on imports will continue for most developing countries. Total U.S. agricultural exports to developing countries increased from $2.2 billion in 1970 to $2.4 billion in 1977.

To what extent will developing countries be able to import needed amounts of food on commercial terms? Countries differ with respect to importing capacity. At one end of the spectrum are the OPEC and other high income countries, including South Korea and Taiwan, with growing industrial capacity and export earnings. This group is likely to have ample foreign exchange, and will continue to depend on commercial imports. Similarly many middle-income countries would have financial capacity to pay for their projected food grain imports. A few developing countries will export grains. These include Argentina and Thailand. At the other extreme are the low income, food deficit countries of Asia and Africa. This is the group where the long-term outlook for meeting the increase in food demands remains extremely grave. The recent food gap was small—only 12 million tons in 1975—but it is projected to rise to 70-80 million tons by 1990. When the costs of these imports are compared with the countries' prospective foreign exchange earnings, it quickly becomes clear that commercial imports of this magnitude cannot be financed.

Many low-income developing countries, however, have the capacity to grow enough food, as was demonstrated by the Green Revolution in Asia in the late 1960s. India, Pakistan, Indonesia, the Philippines and Sri Lanka should be able to grow most of their food requirements. However, food aid will continue to be important, especially to supplement unexpected food shortfalls. In some areas, as in the Sahel countries, food aid may become a structural characteristic of their developmental programs.

### *Strategies and Programs for Increased Food Production*

Significant efforts to increase food production by developing countries would require an annual growth rate of at least 4 percent as a minimum objective. Hence the developing countries must formulate comprehensive strategies—including objectives, policies and programs—for increasing food production and achieving rates of growth substantially above recent trends. Without doubt, an enormous reservoir of production potential—physical, biological and human—remains untapped in developing countries. Developing countries as a whole are not running out of arable land; it should be possible to increase the amount of land under cultivation from 740 million hectares to almost 900 million by 1985. Many millions of acres of land suitable for farming remain unused, especially in Latin America and Africa. Admittedly there exist obstacles such as inaccessibility until roads are built, insufficient technology for the husbandry of tropical soils after removal of tree cover, prevalence of infestations such as tsetse fly in Africa. The progressive removal of these obstacles might be costly, but it is technically feasible. Similarly, only a small fraction of the developing countries' water supplies have as yet been harnessed for agriculture.

In livestock production there are vast potentials for improving health conditions, upgrading herd quality through genetic improvements of animal stock and expansion of the feed base, especially the pasture potential of grasslands in the tropics and subtropics. There is still considerable fishing potential in the seas to be tapped. This will require more scientific and coordinated management as well as international agreement on the Law of the Sea. In the future, aquaculture will also need to be given more priority in development.

Fertilizers, pesticides and herbicides, and improved quality seed can be utilized better. In spite of substantial improvement in both use and production of these modern factors, their use per unit of land remains low on the average. Indeed, much of the potential for increases in food production lies in increasing yields per unit of land or per animal. For example, Mexico grows about 24 bushels of corn per acre while the United States grows 101 per acre. Grain yields in developing countries as a whole average one-third or less of yields in developed countries. There is need for further investment in research, extension and credit supplies. The developing countries will be relying heavily on agricultural research to improve the yields of grains and other crops and the productive efficiency of livestock in order to keep up with population growth through the 1980s. Food supplies could be increased by the reduction of post-harvest losses through better storage and through modified milling techniques.

If agriculture in developing countries is to meet the demands made upon it, provision will have to be made to increase the food consumption levels of the hungry and undernourished groups of the population and to bring the small farmers and the landless agricultural workers into income and employment streams so that their productivity and purchasing power are increased. This will involve the adaptation of improved food production technologies to small-scale farming operations, and the launching of comprehensive rural development programs. A strategy of small farm development distributes income and employment more widely.

One important ingredient of any rural strategy is the mobilization of farmers with little land and know-how to work for their betterment by strengthening rural institutions, credit and extension services. Many developing countries need to undertake fundamental institutional and policy changes, including land and tenure reforms, use of fiscal powers and price and market improvements, and consolidation of land holdings as a prerequisite for encouraging investment and increased production. For example, almost all Latin American countries now have some kind of land reform on their books. However, it has been put into practice in only a few of them, primarily Mexico, Bolivia, Venezuela, Cuba, Chile and Peru. Large farmers gain influence from ownership of land. Access to land for the landless and small farmer is blocked to perpetuate this influence. In these cases Green Revolution technology may be available mainly for crops grown by large commercial farmers. In addition, farm markets often function imperfectly. In many developing countries distortion in relative prices for farm commodities and supplies are critical factors limiting food production and rural development. The forthcoming FAO World Conference on Agrarian Reform and Rural Development can provide important directions to development in rural areas.

*Participatory Development Strategy*

The essence of U.S. bilateral agricultural assistance to developing countries is a simultaneous emphasis on production and distribution so that the small farmers and rural poor, who constitute the majority of the population in most developing countries, may fully participate in the production process and benefit from the expanded production.

The objectives of maximizing production, on the one hand, and assuring equitable distribution of the benefits, on the other, are not incompatible. They require careful coordination and balance in what has generally come to be called a participatory development strategy. Experience shows that agricultural investment efforts which succeed in raising production do not necessarily generate a commensurate increase in employment or income for the poorest in society. Increased food grain production, for example, may not provide a direct increase in employment sufficient to create an adequate demand for the increased grain production.

The participatory agricultural strategy operates within the context of market forces both to increase food production and alleviate hunger in developing countries, and to encourage the use of productive and distributive techniques, enabling the poor to raise their food consumption. It requires, however, that the low income countries face critical policy choices and trade-offs. This may require a substantial increase and redirection of public and private expenditure flows, a major realignment and adjustment of agricultural prices in relation to the cost of factors or adjustment between imports and export prices through tariff or currency changes. In other cases, redistribution of land may be required. Without such changes, however, direct efforts to help the small farmers and rural poor through improved access to agricultural factors including land, credit, marketing services will provide only limited and perhaps temporary benefits.

Analysis of agricultural development experience suggests that if assistance in a particular area is to address both production and equity objectives successfully, some minimum level of effectiveness must be achieved in other areas. For example, a decision to initiate or strengthen a small farmer credit program normally requires a determination that land distribution and tenure do not constitute disincentives to increased production; that participatory institutions (public and private) operate effectively at the local level; that economic policies affecting factor and output prices and interest rates make credit profitable and sustainable for borrowers and lenders; that appropriate and profitable technology is accessible and manageable; and that adequate supporting infrastructures and marketing services are available.

A small farmer oriented production policy is not only technically feasible, it is also economically sound. Highly skewed distribution of land among agricultural producers or ineffectively enforced tenancy regulations will adversely affect both greater equity and increased food production. Recent research findings suggest that the savings propensity of a broad range of lower income groups may actually be higher than that for the economy as a whole, in direct contrast to what traditional economic theory would indicate. In the case of the small farmer, the rate of savings may be very high, although this appears less in monetary terms than in direct improvement, i.e., investment in dwellings, livestock and small holdings, in the form of better drainage and other means of increasing the soil's productivity.

Small farmers are generally efficient allocators of scarce resources given the constraints they face, and can achieve yields per unit of land as high as or higher than large farmers. For this reason, the best approach to increasing food production and attacking hunger in tandem with greater social justice lies in programs designed to help small farmers gain access to agricultural inputs and services which they need to become more productive. The essential elements are each covered under one or more of the World Food Conference resolutions and include such inputs as technical information, credit, fertilizer, insecticides and improved seed; an appropriate system of incentives to assure a fair return; suitable rural infrastructure such as market roads and irrigation systems; minimum processing, storage and and marketing facilities; cooperatives or similar organizations enabling farmers to participate in decisions affecting them. The Administration is prepared to provide assistance in support of land reforms designed to achieve a more equitable distribution of agricultural assets. The assistance—technical or financial—may be direct with respect to land reform, tenure reform, or settlement measures; or it may be in terms of supporting services such as credit, fertilizer, extension, infrastructure, institution building, or other projects designed to support beneficiaries of land reform areas. Also food aid will be provided to cover potential short-run food production or marketing shortfalls related to implementation of land reform.

*Food Aid*

Food deficits are increasing in poor developing countries. In countries such as Bangladesh and the Sahel group, food deficits can precipitate famine and starvation within a short time and consequently development programs will come to a halt. Other developing countries may initially experience shortfalls in food production while pursuing equitable development policies. To address these growing concerns the Administration has given top priority to the use of food aid to support humanitarian and developmental programs across the board and the promotion of world food security.

The food aid programs utilize the strength of our abundant agricultural resources to meet the varying needs of developing countries. Over the last 25 years, the United States has provided $26.5 billion worth of agricultural commodities. Under Title I of PL 480 the United States sells agricultural commodities to needy food deficit countries on highly concessional terms. This helps to provide assistance for economic development and other purposes, including an immediate buffer against crop shortfalls or to cope with short-term balance of payments problems, particularly where corrective stabilization measures are being undertaken. Under Title II, the U.S. donates highly nutritious food to special feeding programs administered by government-to-government programs as well as voluntary agencies and the UN/FAO-sponsored World Food Program. These carry out a variety of programs to help the needy. Title III, which was enacted in 1977, offers substantial incentives to poor developing countries to undertake additional development programs to improve the quality of life for the poor, particularly in rural areas. Multiyear supply commitments of up to five years assure countries priority access to PL 480 food supplies resources. Resources that developing countries use to support agreed upon additional Title III development efforts may be credited against the dollar repayable obligation. In recognition of the special needs of the poor developing countries—identified as least developed by the UN—the "additionality" requirement and some of the detailed planning and reporting provisions of Title III may be waived. Agreements for Title III programs may also provide for payment of ocean freight costs and, in the case of landlocked countries, transportation costs to points of entry.

The first year of implementing Title III has been spent developing the operational procedures for the program. In this "learning process," the Administration obligated $37.7 million in Title III programs, which was $2.7 million below the legislated minimum for this program in FY 1978. We are confident that in FY 1979 and 1980, we will be able to reach the minimum goal and do even better. Furthermore, there is potential for joint programming of U.S. dollar and food assistance to achieve common development objectives. We are planning in the coming years to closely integrate food aid with other bilateral aid.

While the world's long-term solution to food hunger problems lies in expanding agricultural production in the developing countries, substantial amounts of food aid will be required for some time to help the food deficit countries cover their import requirements and feed particularly vulnerable groups. The World Food Conference in 1974 called on donors to consider ways of increasing food aid in the short-term, particularly to the most seriously affected, and set a food aid target of

10 million tons of grain annually. In 1978, food aid commitments amounted to over 9 million tons or about 20 percent of estimated grain imports by the developing countries. The United States has contributed about half the total each year, although the overall goal has not yet been reached.

As part of the ongoing negotiation of a new International Wheat Agreement, the U.S. has proposed an increase in the minimum annual food grain contribution under the Food Aid Convention to a level of 10 million tons. Currently donor countries are committed to an annual minimum of 4.2 million tons, of which the U.S. share is 44 percent, or 1.89 million tons. The United States is willing to contribute 4.47 million tons toward the proposed new goal—i.e., to keep its proportionate share at the current level. This reflects the view that responsibility for food aid should be widely shared among all donor and potential donor countries.

*Food Security*

Because of fluctuations in international prices and production levels in the developing countries themselves, the cost of food grain imports to them can vary considerably from year to year. For example, the total grain import bill of developing countries increased several fold between 1971 and 1974 due to a sharp rise in international prices. At the same time, world stocks of food grains were at their lowest level in 20 years following a succession of poor harvests and crop failure. A number of grain surplus countries, including the United States, had restricted commercial exports and cut back on food shipments when the developing countries needed food assistance most. In 1974 it appeared that the world could not sustain another season of poor harvests without major international havoc falling most heavily on the food deficit countries.

Due to the severe economic consequences of poor harvests and the high world prices of 1972-75, efforts have been under way to strengthen world food security. The main elements of this effort include: an improved policy for food aid; an expanded information and early warning system on crop prospects; expansion of food storage systems in developing countries; and the implementation of the International Undertaking on World Food Security adopted by the 1974 World Food Conference. The United States supported the undertaking and proposed that a formal agreement be negotiated to develop an international grain reserve system under which stock holding obligations would be widely shared. Talks were begun in 1975 in the International Wheat Council (IWC) to develop such a reserve system.

In September 1977 the United States submitted a new detailed proposal for a new International Wheat Agreement which would create an international system of reserve stocks and would expand the Food Aid Convention. Following this initiative, an UNCTAD negotiating conference met twice during 1978 in an effort to conclude an agreement. Substantial progress has been made toward an international grain agreement which would include a Wheat Trade Convention, a Coarse Grain Trade Convention, and a Food Aid Convention.

The proposed Wheat Trade Convention (WTC) would provide for greater world price stability and food security through an international system of nationally held reserve stocks and other measures. Accumulation and release of these reserve stocks would be triggered by movement of a world export price indicator. In addition, the WTC would provide procedures for greater cooperation on adjustments in production and consumption in response to extreme price situations and would include assurances of supply to importing members. In the final negotiating conference, several difficult issues must still be resolved, including the price levels at which reserve stocks would be accumulated and released, the size of the reserve stock obligation for each member, and the measures by which developing members might be helped to meet their reserve stock obligations.

The proposed Coarse Grains Trade Convention would provide for regular consultations among members but would not include substantive economic obligations. The new Food Aid Convention (FAC) would guarantee minimum annual contributions of food aid substantially greater than guaranteed by the earlier FAC.

In addition to its effort to negotiate an international system for food security, the United States has taken several unilateral steps which will contribute to greater stability and food security. As provided by the 1977 Food and Agriculture Act, the United States has created a Farmer-Owned Reserve program which now includes about 35 million tons of wheat and coarse grains. Also, the Administration submitted to Congress legislation for an International Emergency Wheat Reserve which would provide for a special reserve stock to assure that the United States could meet its food aid commitments.

Strengthening the food grain system in the developing countries themselves is an equally important means of improving food security. Programs to establish national systems of food grain management and reserves include domestic storage facilities for countries which are particularly vulnerable to severe harvest shortfalls or where transportation problems of one form or another could interfere with the timely flow of grain into and within a particular developing country. Also, given a food insurance approach, individual developing countries which desire greater food security could maintain reserve stocks sufficient to moderate those fluctuations for which international compensation would not provide.

The United States has undertaken an assessment of ways to strengthen the size, maintenance, and management of food grain reserves in developing countries. The assessment has resulted in suggestions for a unified approach through capital, technical and commodity assistance on a project agreement basis supported by Title III, to help build and maintain adequate food grain reserves and to provide local currency to finance related development activities on a multiyear basis. Preliminary estimates suggest that limited investment in food grain reserves can have high rates of return. Also FAO has recently developed a food security assistance scheme for developing countries interested in developing their own storage programs.

*Reducing Post-Harvest Food Losses*

In addition to increasing food production, food aid, and food security programs, reducing post-harvest food losses provides another viable option in methods to reduce hunger and malnutrition in the LDCs. Losses of food after harvest in the LDCs, either in storage or in the processing and distribution channels are estimated to exceed all developed country food aid. LDC post-harvest grain losses alone are estimated to be around 42 million tons a year with a value of around $6.9 billion.

A 1975 Resolution of the VII Special Session of the United Nations General Assembly committed member states to reduce post-harvest food losses by 50 percent by 1985. To obtain this goal extensive research, training and extension as well as considerable capital expenditures are required.

Direct action programs, both by the United States and other donors, to reduce post-harvest food losses have been small but significant, and are increasing. Post-harvest loss reduction activities of major donor groups are informally coordinated through the Group of Assistance in Systems Relating to Grain After Harvest (GASGA). Other more formal coordination arrangements between the U.S. Government and FAO, and between the U.S. Government and other bilateral agencies should be developed for better utilization of total efforts in this area.

*Presidential Commission on World Hunger*

The crisis atmosphere of 1972-74 with its succession of natural disasters, poor harvests, and the quantum jump in the cost of petroleum-based fertilizers and other essential agricultural inputs had helped to galvanize world opinion to adopt a common set of goals and objectives for the elimination of hunger and malnutrition and to agree on a range of measures designed to achieve these objectives.

Congress, by a joint resolution, indicated its own concern with hunger and called upon the President to establish a Commission to define the causes of world hunger and malnutrition and begin seeking ways to remedy those problems. The President set up a group which made an analysis of the problem. As a result, there emerged a clear conviction on his part that a Presidential Commission on World Hunger would be timely and could have a significant impact. During its two years of existence the Commission will: identify the root causes of domestic and international hunger and malnutrition; assess past and present national programs and policies that impact on hunger and malnutrition; correlate and integrate available materials and research; recommend to the President and Congress specific actions for a cohesive national food and hunger policy; and help implement those recommendations and focus public attention on food and hunger issues. The Commission will present recommendations to the President and Congress after a year, and then stay in existence an additional year to help implement these recommendations.

*Research*

A strong research base is essential to all programs needed to increase food production, alleviate hunger and moderate the instability of supplies and prices. The United States invests almost $1 billion a year in its own agricultural research, but much of this work needs to be adapted to the climatic or to the economic and social conditions of developing countries.

Less than one percent of global agricultural research is conducted in the developing countries. The task now for these countries is to adapt existing technology to their needs. More research must be done in the developing countries and extension services need to be expanded to bring the benefits of research to the small farmer. Research is more effective if indigenous, aimed at local problems, and quickly moved from the laboratory to the field.

Analyses of investments in agricultural research generally confirms that returns have been several times those usually realized by other types of industrial investment. Estimates are that between 1948 and 1971 each dollar of basic rice and wheat agricultural research generated, after 8 to 10 years, an annual benefit of about $80 in the developing countries and $31 in developed countries. The equivalent estimates for applied or developmental agricultural research were about $60 and $7 respectively. The annual returns from investment in research on food production may be as much as 40 to 60 percent in the developing countries.[1]

Significant work is already being done in the developing countries. For example, the International Maize and Wheat Improvement Center in Mexico has developed a heat-resistant wheat. This program, supported by private United States institutions, has now expanded its operation and is testing new improved varieties of wheat in hot, dry areas around the Mediterranean. A second example is the International Rice Institute in the Philippines. Thanks to this research and efforts of the Philippine government, the country has become self-sufficient in rice. High-yielding varieties of wheat and rice have formed the core of what is popularly known as the "green revolution". The fact that the use of the new varieties and some or all of the related factors have been adopted on over 54 million hectares in 30 countries

[1] R. E. Evanson and Y. Kislov, *Agricultural Research and Productivity*, New Haven: Yale University Press, 1975.

in only 10 years with obvious success in increasing agricultural output, shows that where a clear economic advantage is demonstrable farmers will accept new technology and that its adoption cannot possibly have been confined only to landlords and the large farmers, as some critics have suggested, although the latter may be the innovators.

In contrast, the results achieved in recent years through plant breeding and its supporting disciplines—the post-harvest technologies—remain extremely deficient in most developing countries. Here it is rarely a question of new research being needed but rather one of securing more widespread adoption of well-known technologies. For example, the poor storage facilities for grain and other foods, except in major cities and ports, are responsible for heavy losses. Similar losses are caused by the shortcomings of the processing equipment for grains, oil seeds and other crops. At present about 20 percent of the value of all food produced is lost before it can be consumed. The annual value of this is estimated at $7.5 billion or about the value of the annual food deficit. If a quarter of this loss were eliminated, over 40 million tons of food would be available without any increase in production. That is more than half of the anticipated food deficit for 1985. The United States and FAO are now collaborating on a key project to control crop-destroying pests in the Sahel. Other areas which call for intensive research work include: control of tsetse fly, which makes large areas of Africa unfit for cattle raising; water management such as sub-soil irrigation to reduce loss by evaporation in hot climates; aquaculture to double fish production by 1985; and high nutrient foods such as we are beginning to derive from soybeans.

After a lapse of several years, AID is again focusing attention on the conservation of soil, water and other natural resources by supporting projects to increase forest areas and to improve watershed management. The major goal of this effort is to help the very poorest farmers in the hilly regions of the developing world by improving their income, providing energy for fuel and light industry, and increasing employment as well as conserving natural resources. This is a completely different emphasis than has been the case in the past when programs were aimed at timber harvesting which benefitted the large farmers.

The U.S. support for international agricultural research, education and extension has increased rather substantially over the last five years due to: (1) the key role of new and improved technology for agricultural production; (2) the serious deficiencies in the nationwide agricultural research education and extension systems of many poor developing countries; (3) the fact that the establishment of effective, self-perpetuating systems is a long-run effort; and (4) the special competence of the United States in those fields. Agricultural research-related projects supported by AID have been of three types: (1) contract projects with U.S. institutions for research on matters of concern to developing countries; (2) contributions to multilateral support of international agricultural research centers and (3) bilateral support to developing countries national programs.

Currently, AID support for agricultural research constitutes about 15 percent of FY 1978 total for agricultural development. The AID support includes financing for construction and equipment as well as for training and technical assistance. Collaborative projects with U.S. institutions and with international centers must be coordinated closely with efforts to strengthen country systems. The most important task will be to encourage research orientation toward the needs of low-income farmers; emphasizing the particular needs of women farmers—the crops, livestock and fish they currently grow or might grow and profitably market; the constraints they face and farming systems they employ, and the kinds of factors and implements within their reach.

A major portion of agricultural research efforts is performed by the Consultative Group for International Agricultural Research (CGIAR), which coordinates and funds research programs in nine international agricultural research centers. These centers have been responsible for the major breakthrough in the development of the new high-yielding varieties of wheat, maize, rice and other crops. Total contributions to the centers have risen from $20.06 million in 1972 to an estimtaed $86.13 million in 1977. During the same period the annual AID contribution rose from $3.77 million to $21.4 million.

In addition, under Title XII of the Foreign Assistance Act, AID has launched a broad program to enlist the vast resources of our agricultural colleges and universities in solving world-wide food and nutritional problems.

While AID has long and successfully used the expertise of U.S. universities in development programs, Title XII permits more systematic and longer-term application of scientific and technological expertise on agricultural development programs. Through Title XII, the Board for International Food and Agricultural Development (BIFAD) in 1978 has developed and institutionalized a set of procedures which ultimately will result in the broadest involvement of the agricultural complexes of our universities in the U.S. agricultural development assistance program. This has taken the form of developing means whereby the Board participates with AID in decisions relative to the nature and magnitude of our technical assistance program in developing countries. Already arrangements are being made with the universities for them to take the lead in world-wide research programs to improve the production of sorghum and millet, beans and cowpeas, sheep and goats and to improve the management of soils particularly in the tropical areas. All of these are of supreme importance to the smallest and poorest farmers in the world, especially in Asia and Africa.

*Fertilizers*

Fertilizer, as much as any other factor, has increased food production in the developing world. Fertilizer use in the developing countries totals over 22.5 million nutrient tons per year, 39.2 percent of which must be imported. Twenty-two and a half million tons of fertilizer will produce the equivalent of 180 million tons of grain under present practices. At acceptable standards of nutrition this is food enough for 600 million people and, by historic standards in India, for over one billion.

The United States finances the import of fertilizer for developing countries without the industrial capacity to meet their domestic needs by providing countries with the necessary raw materials to produce their own fertilizer, by helping to improve fertilizer distribution systems, and by augmenting physical facilities and training managers and sales personnel. Also technical assistance contributes to rapid adoption through farmer education, provision of credit and research.

Commitments to finance fertilizer import amounted to $75,136,210 in FY 1978. Transport costs 25 percent of the total. Although product financing is the largest category within the fertilizer budget, many other projects also have fertilizer as a critical component. Twenty-one projects with an aggregate value of $151 million have been identified as falling within this category. Many more could probably be assigned as well. Most of the projects are oriented toward agricultural extension and farm credit. Even with the de-emphasis on capital intensive projects, the United States has joined other donors and the international lending institutions in support of a few fertilizer production projects in the developing countries. These are the potash project in Jordan at $44 million, the Pakistan nitrogen fertilizer plant at $40 million, and the Bangladesh nitrogen plant at $53 million. In all three cases these plants will be based on locally available raw materials.

We have invested in fertilizer research through the International Fertilizer Development Center (IFDC) by concentrating on more efficient nitrogen fertilizers and on ways to use ores available in the developing countries to produce phosphate fertilizers. The fertilizer distribution systems and policies which affect them are also under study. IFDC is also involved in two other major functions. The first is to transfer existing technology and expertise to developing countries and the second is to train nationals of those countries to manage and operate their own fertilizer production and distribution to the benefit of farmers and consumers alike. Technical assistance has been supplied by IFDC to 26 countries under 70 separate projects most of which were financed by non-AID sources.

While our efforts to meet present fertilizer needs constitute a large and comprehensive program, new needs are being defined under AID sponsored soil and crop research projects, at the International Agricultural Research Centers focussing on crops and farming systems, and by national institutions in the developing countries. The United States is contributing to UNDP, FAO and UNIDO as well as the World Bank group, all of which have major activities in fertilizer. Duplication of the efforts of the multinational institutions is avoided through an exchange of project information, participation on working groups, commissions, and consultations as well as on informal exchanges among technical officers directly involved in project planning and implementation.

While the United States can take great pride in its contributions to increasing food production through fertilizer use in the developing countries, we must realize how unevenly distributed the success has been. This is seen not only in differences from country to country but within countries as well. Recent studies have shown that—contrary to popular assumption—small farmers have adopted fertilizer and, at least in India, are using it more intensively than neighbors with access to more land.

*Increasing Foreign Investment*

In order to increase food supplies sufficiently to make an impact on hunger and malnutrition, there must be a substantial increase in investment in the agricultural sector of developing countries, together with complementary policy and institutional reforms. While the bulk of these efforts must be made by the developing countries themselves, external financial resources can significantly accelerate the process and help meet the basic objectives more effectively. Particularly large investments are required for institution-building and infrastructure projects closely related to broadly participatory agricultural production needs.

One of the hardest tasks facing developing countries in eliminating hunger and malnutrition is to obtain and use scarce capital and skill for major development projects benefiting agriculture. The World Food Conference estimated that to increase the rate of growth of food production in the developing countries from 2.7 to 4 percent per year (and thereby close the developing countries net food grain gap by 1985) would require investments ranging from $16 billion to $18 billion per year for the period 1975-1980. Of this, one-third or $5.3 billion per year is required from external sources, which, in 1975 prices would be equal to $8.3 billion. Assuming a 5 percent annual inflation rate over the 7 year period, 1975-82 would yield an external resource requirement to developing countries' agriculture of over $11 billion (in 1982 prices). Another indication of the magnitude of the resources needed to make an impact on regional hunger and malnutrition is contained in a recent Trilateral Commission Report. It is estimated that to double Asian rice production in the next 15 years through irrigation, the developed countries must increase their assistance to agriculture in Asia to about $1.8 billion a year; and the countries of the region must mobilize vast resources of their own as well as increase their absorptive capacity. The flow of external resources to developing countries is still a long way from reaching the minimum goal set by WFC. The level of bilateral and multilateral commitments for 1977 was $6.1 billion.

A network of institutions now exists to fund food and agricultural development projects. Multilateral development banks lending to agriculture has increased from $1,285 million in 1974 to $3,913 million in 1978. The World Bank group committed the bulk of resources to agriculture in FY 1978 amounting to $3,270 million—more than double the 1976 level. The lending includes funds for 88 projects dealing with agriculture and rural development, which will directly benefit some 28 million rural poor people. A $1 billion International Fund for Agricultural Development (IFAD) has been created in Rome with a mandate to undertake projects of benefit to the poorest countries. In 1978 IFAD had committed $100 million for small farmer projects in 10 developing countries. A particular feature of IFAD is that it was conceived as a joint undertaking to bring together in a major developmental program both traditional (OECD) foreign aid donors and newer donors who are members of the Organization of Petroleum Exporting Countries (OPEC). Another important innovation adopted by IFAD is distributing the voting strength so that the group of developing country recipients as well as each of the two donor groups have one-third of the total votes. This tripartite voting arrangement should greatly facilitate new approaches to agricultural development problems.

Another center for multilateral cooperation, the FAO Investment Center, assists in finding both public and private financing for sound projects. To date, they have located financing for over $5 billion in worthwhile projects. The Center is being called upon to provide expertise in designing and appraising projects of the kind IFAD will finance. This hoped-for interrelationship is the basis for grouping the main UN agricultural organizations together.

*Multilateral Efforts*

Differences in climate, resource endowments, domestic availability of skilled manpower and sufficient foreign exchange affect the mode of multilateral development bank agricultural lending in developing countries. Yet, development bank strategies do have common elements: development of new technologies, their dissemination through extension, their financing by agricultural credit; the provision of essential farm related infrastructure, especially irrigation, farm to market roads and grain storage facilities, provision of new seed varieties, fertilizers and pesticides. All these activities have the common objective to increase agricultural productivity and to contribute to raising the well being of small farmers in developing countries.

The World Bank group has had the most experience in agricultural lending. Its extensive experience in this sector has, to a large degree, set the parameters for the agricultural activities of the regional development banks. In the early 1960's, the agricultural strategy of the Bank focused on irrigation and flood control projects. Subsequently other innovative strategies have evolved and received attention through diversified lending to other important areas such as land settlement, seed improvement, grain storage, livestock, forestry, training and agricultural extension. More support was given to comprehensive integrated rural development projects which accounted for 17 percent of total World Bank lending in FY 1978. Most recently, the efforts have shifted to encourage production of food for domestic consumption.

The Inter-American Bank (IDB) has historically provided essential capital infrastructure, such as irrigation facilities and agricultural credit, to facilitate the timely acquisition of needed farm inputs and productive new technologies. Food grain production is receiving more attention by increased lending for agricultural credit. In FY 1978, $152 million or half of IDB agricultural loans was directed to agricultural credit loans. Also, new extension services have been created with IDB support and the number of extension workers substantially increased. Seed production programs have been initiated and short training programs have been offered to more than 5,000 rural leaders, aimed at strengthening ties between the service unit and farmers and facilitating the adoption of new techniques and recommended inputs.

The African Development Fund (AfDF) is in the process of developing a strategy for agricultural development. Food grain production will be given top priority through financing of irrigation systems and rural development projects. Given the great needs of agriculture in African economies—water resources, new technologies, infrastructure and credit—future lending to this sector will involve greater emphasis on integrated rural development projects with irrigation as the major productive component.

The Asian Development Bank (ADB) has adopted a comprehensive agricultural development strategy which addresses the crucial need to increase food grain production, employment, the distribution of ownership of production assets and income, and linkages between agricultural and non-agricultural sectors of the economy. The ADB admits that despite the introduction of superior agricultural technologies, the rural population of Asia had not shared much in the benefits. Rural poverty is still widespread and available evidence suggests that it has worsened in this decade. Hence the broad objectives for agriculture during the next decade are: the acceleration of growth in agricultural output; a small farmer orientation; strengthening the links between rural and non-rural sectors, and organizing agricultural production and trade; increasing the share of the developing countries in global increases in productivity and income; and more adequately safeguarding the LDCs from fluctuations in international trade.

**B. Energy**

The role of energy has been receiving growing attention in U.S. assistance programs. The energy problem—the anticipated peaking of world petroleum production and associated shortages and price rises—presents much of the developing world with the same choices faced by the industrialized world, namely, the need to formulate long-term energy strategies that are consistent wtih economic, resource and environmental realities. Both developed countries and LDCs face the same difficult decisions on how to allocate scarce financial resources to meet present energy needs, especially for imports, while at the same time searching for alternate energy sources for the post-petroleum era.

*Energy and Development*

The LDCs must use more energy if they are to increase agricultural productivity, improve the employment opportunities for their growing populations and address the special needs of urbanization. One estimate is that at least a five fold increase of energy will be needed by the LDCs if they are to meet these needs by the year 2000.

The current picture is one of heavy dependence on petroleum-based fuels for commercial energy needs and on a diminishing supply of available fuelwood for non-commercial energy needs. Oil price escalation and the associated foreign exchange burden on developing countries, however, combine to limit oil's potential as the primary energy source for the future. Many oil-importing LDCs face growing balance-of-payments deficits. Increased borrowing to finance oil imports results in increased debt servicing problems.

The share of gross energy imports in the oil-importing LDC import bill has almost doubled since 1973. The annual LDC imported energy bill increased from $6 billion in 1973 to $18 billion in 1977. According to the World Bank, the effects of these oil-related dislocations will continue to be felt most severely by the lowest income LDCs. The recent 14 percent OPEC increase in oil prices will impose an additional burden.

Related to the question of oil price is the matter of oil supply. While the LDCs are seeking greater quantities of petroleum to fuel their development plans, world petroleum demand is likely to exceed supply in the not-too-distant future. Most projections center around the year 2000.

For approximately the next two decades, however, petroleum will continue to be the primary source of conventional energy for the developing countries. Studies recently carried out by the World Bank show that:

—Some 50 to 60 oil-importing developing countries have a potential for producing oil and/or gas. Only 14 are producers now.

—Current oil prices justify the exploration and development of many areas previously considered uneconomical.

—The benefits from more intensive petroleum development in oil-importing developing countries would be substantial.

—Most of these countries lack the necessary technical skills and financial resources to develop their potential and lack the experience to plan a strategy for the energy sector.

Another essential factor in the energy situation of developing countries is the heavy use of non-commercial energy resources, such as fuelwood, which supply much of the energy for the poor, rural people in the LDCs. In many cases, this source of energy is being badly managed. The collection of fuelwood without accompanying replanting in large areas of LDCs is leading to a global crisis which is perhaps as serious as that posed by the depletion of affordable petroleum supplies—and more complicated. In addition to local effects—deforestation, soil erosion, more severe flooding —global effects include the possibility of a build-up of carbon dioxide in the atmosphere that could have disastrous climatic consequences in the years ahead. Other effects of deforestation in developing countries that are at least partly due to fuelwood collection include the reduction in the number and type of tropical flora and fauna species—resources that are essential for the development of all countries.

Renewable energy resources must be much more carefully managed and conserved, and their full potential must be explored to determine whether they offer developed and developing countries alike a viable long-term alternative to petroleum. These resources include sunshine, hydropower, wind, geothermal resources, power of temperature differentials in tropical ocean currents, firewood, charcoal, animal and human wastes, crop residues, and animal and human draft power. On the whole, however, renewable energy technologies are not sufficiently advanced to make a significant contribution to energy supplies for some time. Continued research and the adaptation of technologies developed, thus, are of great importance to all countries.

*Bilateral Assistance*

The U.S. Government has recognized the critical nature of the energy problems facing LDCs and we are cooperating with other developed countries in planning for assistance to them. The heads of state at the Bonn Economic Summit in July 1978, in response to a U.S. initiative, made a commitment to intensify national development assistance programs in the energy field and to develop a coordinated effort to bring into use renewable energy technologies. AID contributes to the overall U.S. effort in cooperation with the Departments of Energy, Treasury and State, and the Peace Corps.

Effective renewable energy alternatives will assure continuation of development by reducing dependence on rapidly depleting petroleum supplies and by reducing the demand/need for introduction of nuclear facilities. U.S. activities stress energy planning, institution-building, training and demonstration of technologies. Particular emphasis is placed on the optimum use of renewable resources and decentralized energy production, such as biomass conversion, decentralized small-scale hydropower, solar and wind energy.

An expanded U.S. energy program will assist developing countries to address their energy problems in a manner consistent with overall development objectives, including resource and environmental control. AID's assistance concentrates on the following major areas:

—Analysis of LDC energy needs, uses, resources and priorities for development.
—Development of U.S. and LDC expertise to meet increasing demand for LDC experts in the energy field.
—Support for LDC institutions and agencies engaged in energy policy, planning, research and development.
—Assistance in extending energy education, services, equipment and commodities to meet the energy needs of the rural and urban poor.
—Assistance for research, development, demonstration and application of energy technologies.
—Assistance in addressing the fuelwood deficiencies, including research, training, demonstration and support for developing country programs.

AID programs in these areas will help LDCs obtain the capability to manage their energy sectors. This will involve demonstrating in the LDCs the appropriateness and prospects for success of the technologies selected. While AID energy programs emphasize the utilization of indigenous renewable resources, the Agency will continue assistance in conventional energy production in areas such as rural electrification. AID's FY 80 program level of $45.5 million for renewable energy activities represents approximately a three-fold increase over the $17.4 million which it obligated in FY 78 pursuant to Section 119 of the Foreign Assistance Act.

Peace Corps volunteers working in rural villages in developing countries have been assisting villagers in providing for their energy needs for a number of years. The Agency is now involved in expanding the ability of volunteers to help villagers develop small-scale renewable energy systems. A Peace Corps and AID joint energy program has been established to (1) build within the Peace Corps a substantial energy initiative to upgrade energy-related volunteer training; (2) identify and develop new Peace Corps energy projects in LDCs, initially in cooperation with AID renewable energy technology field testing; and (3) manage a multiyear "audit" of village level energy needs and resources to be conducted by volunteers.

In addition to the valuable data the audit would provide, it is designed to heighten the awareness of energy-related constraints to development of volunteers who participate in it. Volunteers would be educated in low-cost alternative (renewable) energy technologies which they can adapt and modify for the benefit of the particular communities in which they serve, and it is Peace Corps' expectation that some village level experiments will develop into full-scale energy projects. AID will be providing Peace Corps with some financial and technical support for these initiatives.

The Department of Energy, as part of an interagency pilot program, conducted collaborative energy technology and resource assessments with Egypt and Peru. In addition, energy technology research and development programs were pursued with several LDCs (including Brazil, Mexico and Saudi Arabia), covering such areas as solar, geothermal, coal and conservation. DOE, with the Department of Commerce, is beginning to analyze the markets for solar technologies in LDCs and the barriers to increasing U.S. exports in this field.

Overseas Private Investment Corporation (OPIC) provides political risk insurance for U.S. private-sector investments in energy exploration and production in LDCs (except OPEC countries). This encourages U.S. enterprises to invest more confidently abroad in these activities and also enables them to more readily obtain bank financing for these projects. An example of the utility of political risk insurance is a recent Ghanaian oil discovery by an American company which was only able to obtain private funding for its production after it received political risk insurance from OPIC. OPIC can also guarantee repayments of loans made by private banks to U.S. and foreign companies for investments in energy projects in LDCs, and it is currently negotiating several such guarantees.

The Executive Branch has taken action to coordinate its energy activities. An *ad hoc* interagency steering group on energy programs with developing countries has been established by AID, State and DOE, with participation on subjects of special interest by Treasury, Peace Corps and other government organizations. A study of further coordination and delineation of roles for an overall government energy program for developing countries is now being prepared.

*International Organizations*

The U.S. supports the expansion of the role of the multilateral banks (MDBs) in energy development. We have specifically encouraged the World Bank and the IDB to expand their efforts to develop indigenous resources for meeting internal demands for energy and raw materials and, in some cases, for export purposes as well.

In June 1977, governments represented at the Conference on International Economic Cooperation (CIEC) invited the World Bank to expand its participation in developing countries, particularly in energy-importing LDCs, in order to assess the capital available for investment in energy diversification and development. The Conference also called on the Bank to act as a catalyst to induce additional flows of capital into energy development. Later in the same year, a new Petroleum Projects Division was set up within the Bank's Energy, Water and Telecommunications Department in order to expedite the requests of member governments for assistance in the energy sector. During fiscal 1978, the Bank sent missions to more than a dozen developing countries to identify and prepare projects aimed at oil and gas production.

The World Bank has recently announced that it will expand its activities in the pre-development phases of hydro-carbons for the oil-importing developing countries. Recent technological improvement in survey work should provide greatly improved geophysical and geological data which will help to limit the risk inherent in borrowing for exploratory drilling. This should broaden the possibilities for private company participation in exploratory work by making the survey work available to potential bidders for exploratory and development participation. The Bank's role needs to continue to be that of a catalyst facilitating increased private capital flows.

Of a World Bank $3 billion five-year oil and gas development loan program,

—$2 billion of the loans and credits will be used to develop known oil and natural gas reserves in oil-importing LDCs. These loans in many cases will be "seed" money which, along with other funds borrowed at commercial terms or invested by foreign companies, will be used to develop resources that otherwise would not have been developed;

—$460 million will be used for appraisal drilling to delineate known fields of oil and gas to determine whether these deposits can be developed economically;
—$102 million will be used for geophysical and geological surveys; and
—$450 million will be used as risk capital to explore for gas and oil as a catalyst for private investment.

In addition, the Bank plans to allocate $340 million over a five-year period for a coal development program. It has also begun to reappraise its support for traditional non-commercial (renewable) energy sources. In a number of projects, the Bank has encouraged its member governments to recognize the importance of these sources of energy. In addition, the Bank has given financial support for the development of low-cost devices appropriate to local conditions, e.g., to make practical use of solar energy in the Bolivian Altiplano; to improve the efficiency of the earthen charcoal kilns used by Philippine smallholders; and, to improve the efficiency of cooking stoves in several countries.

The United Nations Development Programme (UNDP) is beginning to assist LDCs in renewable energy technology. A first global project in the field of solar energy was approved by the UNDP Governing Council in June 1978, namely, Testing and Demonstration of Small-Scale Solar-Powered Pumping Systems for which the World Bank is the executing agency. UNDP also is exploring the possibility of additional project activity in the area of renewable energy technology.

The U.S. Government supports and is actively preparing for the UN Conference on Science and Technology for Development (UNCSTD), which will be held in Vienna in August 1979. An increasing need for energy by the oil-importing LDCs in order for them to achieve their social and economic goals will make energy technology an important Conference agenda item.

The UN General Assembly recently approved a resolution to convene a UN Conference on New and Renewable Sources of Energy in 1981. This Conference, actively supported by the United States, will provide a forum to discuss and exchange information about the development and application of new and renewable energy technologies, to evaluate their use in specific demonstration projects, and to encourage the adoption of these technologies, where appropriate.

The International Energy Agency (IEA) has increased its interest in cooperative energy activities with LDCs. In December 1978 it hosted a workshop on Energy Data of Developing Countries, which was attended by energy experts from about 10 LDCs. It is planning to publish a set of energy balances for 25 developing countries.

*Conclusion*

Obtaining the energy to meet the basic human needs of the world's poor and to fuel the economic development and growth of LDCs is a global issue of significant dimension. The United States, by cooperating with and assisting developing countries to address this problem, will enrich the potential for a more stable world and for meeting our own domestic energy needs in the rapidly approaching post-petroleum era. The challenge is great because we are only now beginning to explore the possible alternatives.

## C. Environment

An awareness of the finiteness of global carrying capacity is becoming an increasingly important part of development considerations. In spite of controversies over definitions of reserves, technologies and rates of growth projections, there is a high degree of consensus that exponential rates of growth in demand for resources, especially fuels, water and minerals, will force significant supply readjustments to industrial economies within two decades. Of more immediate significance to the majority of the world's people are the destructive pressures on agricultural land. Both food and industrial crop demands are accelerating the destruction of marginal lands. The consequent destabilization of water flows, soils, and food and fuel supplies leads to settlement changes and higher infrastructure investment costs. At the same time, there is a serious decline in the quality of basic resources, requiring increasingly costly inputs of capital and technology simply to maintain present levels of production. It is now pressing that development issues be placed within the parameters of an environmental management strategy to maintain air quality and improve a sustainable resource base for future generations. Concern for the quality as well as the quantity of resources for the future is fundamental to a sound development strategy.

The environmental issues discussed here are critical to self-sustaining growth and to meeting basic human needs. Only with careful management can the resources themselves, the wealth and prosperity to be derived from them, and their accessibility and equitable distribution be realized.

*Key Development Problems*

In their efforts to survive, the large populations of less developed countries are seriously reducing the carrying capacity of their tropical and sub-tropical environments. Consequently, large regions within these zones are threatened with severe degradation. Excessive land clearing by cutting and burning, overgrazing and over-cutting of forests create serious problems as growing populations exhaust the cultivated lands and migrate to marginal lands or urban/industrial centers.

Despite nearly world-wide efforts to curtail population growth, pressures on basic resources continue and are manifested in several common LDC problem areas.

Environmental problems of traditionally cultivated areas include:

—decreasing soil productivity from poor agricultural practices such as alteration of optimum crop combination patterns, efforts to produce more on the same amount of land by shortening the land-fallow period, and inappropriate mechanization;
—salinization and waterlogging of soils caused by improper irrigation;
—desertification resulting from overstocking, deforestation and lowering of aquifers by excessive ground-water consumption;
—soil and water poisoning from improper and uncontrolled use of fertilizers and pesticides;
—reduction of soil, water and nutrient holding capacities;
—soil erosion which is accelerated as a result of all these practices and conditions;
—the negative impact upon lowlands of marginal land exploitation—erosion of highlands and the resulting sedimentation of canals, rivers and reservoirs; reduction of water quantity and quality; and changes in river and stream-flow patterns which foster floods and droughts;
—increases in water-borne diseases such as schistosomiasis and onchocerciasis as a result of improperly-designed and/or improperly maintained water distribution systems, and increasing malarial vector resistance to pesticides.

In newly-settled areas, current practices often cause a critical reduction in soil fertility and stability of these marginal lands. The cutting of forests for firewood, slash and burn agriculture, and conversion of forest lands to grasslands for grazing purposes is usually accompanied by massive erosion of fertile topsoil followed by floods. Increased hydroelectric power production costs and alteration in the quality and quantity of drinking water for agriculture purposes result. The encroachment of man on natural wildlife habitats by national or individual developmental activities such as draining swamps, building dams, constructing roads and destroying coral reefs also results in the broad destruction of the world's genetic pool.

These problems often intensify the out-migration from these rural areas into urban centers, exacerbating urban problems of housing, sanitation and employment. Massive, rapid influx of rural migrants into urban-industrial centers strains to the breaking point such urban systems as sewage disposal, solid waste collection and disposal, potable water distribution, transportation, communication and health services. This is often compounded by other associated problems: construction of slum housing in areas inappropriate for human habitation such as steep hillsides, swamps and flood plains; urban sprawl and absorption of arable land for non-agriculture use; atmospheric, water and soil contamination from industrial wastes, auto exhausts and the accumulation of human and solid wastes; and increases in communicable diseases as a result of the unsanitary conditions and lack of adequate health care.

Resource and physical condition problems not only seriously threaten the survival of the people of a particular area or country, but they often have regional, even global, ramifications when linked by air and water flows as in the pollution and/or degradation of a river system. The United States and other developed countries, thus, have begun to give much more serious attention to the environmental problems of the LDCs.

*U.S. Response—1978*

The Congress amended the Foreign Assistance Act in October 1978 in two significant regards to strengthen environmental concerns in foreign assistance programs. First, Section 103A was amended to broaden and clarify the mandate for including the environmental concerns of "forestry and soil erosion" among those to be considered in the provision of assistance to small farmers abroad. Second, a new subsection 118A states that (1) the President will consider environmental concerns in all U.S. assistance programs; and (2) the President will report to Congress in March 1979 on the environmental problems of LDCs and the ability of each country to address them.

Agency for International Development

Since adopting its Environmental Procedural Regulations in June 1976, AID has made progress both in its internal management of environmental concerns and in strengthening LDC capabilities in the environmental areas. AID now examines its activities to determine their potential environmental impact. Of those projects identified as needing either an environmental assessment or environmental impact statement, most of the evaluations have either been started or completed. An increasing number of officials have been given responsibility for environmental action and are either monitoring environmental soundness in project design or working directly on environmentally oriented projects. Virtually all of AID's engineers have received training in environmental evaluation, and an environmental awareness component has been incorporated in the Development Studies Program for on-board personnel as well as in the International Development Intern Program for new employees. Field and headquarters staffs have been brought together in a series of three two-week workshops to discuss environmental policies and programs.

Recognizing that project soundness is but one element of an environment program, AID is now initiating projects in the areas of forestry, control and prevention of desertification, water quality management, environmental health, fisheries, pest management, watershed management and environmental training. A new series of regional field seminars for AID and host country counterparts was initiated recently by AID's Asia Bureau. Environmental expertise is made available to the missions when local staff or host country personnel lack the ability to adequately address such issues as insecticide use, desertification, forestry and watershed management.

The Administration is currently considering a major commitment to assist potable water development as part of the U.S. contribution to the UN Water Decade.

### Council on Environmental Quality (CEQ)

In January 1978 CEQ circulated a draft proposal for regulations spelling out the applicability of the National Environmental Policy Act (NEPA) to federal agency activities overseas. As a result of the year-long discussions within the Executive Branch and with the Congress, the President in December 1978 issued Executive Order No. 12114, entitled *Environmental Effects Abroad of Major Federal Actions,* which specifies that NEPA's section 102(2) environmental impact statement (EIS) requirements apply to major federal actions significantly affecting the quality of the environment in global common areas (e.g., oceans), and which establishes for the first time government-wide procedures for the review of the environmental effects abroad of major U.S. actions. The Executive Order calls for the agencies involved to cooperate with CEQ and the Department of State in working out their own environmental assessment regulations and procedures in accordance with NEPA and the stipulations of the Order.

The Year 2000 Report (Global 2000 Report) being prepared by CEQ and the Department of State at the request of the President—expected to be available in mid-1979—will be relevant to both domestic and international environmental protection efforts. Its projections on changing levels of population, resource availability and environmental quality will be especially pertinent to development assistance programs. The report, which is based on extensive data collection and the application of the government's current modeling capabilities, will serve as the foundation of USG longer-term planning in the areas of population, natural resource management and protection of environmental quality.

### Environmental Protection Agency (EPA)

EPA's 1978 international activities were principally directed to three areas. Using local currencies in PL-480 countries on a contract basis to assist on a wide range of environmental problems, EPA focuses mainly on the provision of safe drinking water, solid waste disposal, and the control of environmentally-damaging effects of pesticides. EPA responds, on a reimbursable basis, to requests for assistance on a range of problems from middle-income LDCs, such as Nigeria, Saudi Arabia, Iran and Brazil. Additionally, EPA experts give WHO, UNEP and other multilateral agencies short-term technical assistance on the entire range of environmental activities in which the EPA is involved.

### Department of State

The Department of State is pursuing initiatives and recommendations resulting from the 1977 UN Water and Desertification Conferences. Its current efforts focus on developing a U.S. strategy and program for participating in the 1980-1990 International Decade for Drinking Water and Sanitation and pursuing opportunities for addressing problems of expanded collaboration with Mexico in the large arid/semi-arid region we share.

In 1978 State and AID sponsored the U.S. Strategy Conference on Tropical Deforestation. These two agencies, along with the Department of Agriculture's Forest Service, are heading a government-wide effort to prepare a U.S. policy, strategy and program on tropical forests to follow a major recommendation of the Conference. In addition, State is planning an international conference for 1979 which will seek to identify measures that can be used to improve the safe transport and use of pesticides and to identify possible alternatives to chemical pesticides, including integrated pest management programs. A principal thrust has been to elevate natural resource management issues in international fora such as UNGA, UNESCO and UNEP governing councils, and in UNCTAD.

### Department of the Interior

The National Park Service and the Fish and Wildlife Service are involved extensively, on a reimbursable basis with PL-480 foreign currencies, in a number of LDCs by assisting with conservation research, national park planning, wildlife protection and in-country training.

### Peace Corps

Approximately 700 Peace Corps volunteers are working throughout the developing world on a wide range of environmental projects, including reforestation, soil conservation, fisheries, and watershed and rangelands management projects. Recently, the agency established a conservation program support unit with the assistance of a specialist in natural resources detailed from USDA's Forest Service. There is also a fisheries specialist in the same office. Discussions with the U.S. Park Service about a similar detail have been concluded.

Peace Corps is participating in the U.S. government interagency forums on the Water Decade and on Tropical Forestry, as well as on the effort to develop a U.S. strategy for tropical forests.

### *Interagency Working Group on the Exportation of Hazardous Substances*

Formed in May 1978 and chaired by the Special Assistant to the President for Consumer Affairs, the Interagency Working Group on the Exportation of Hazardous Substances is attempting to formulate a federal policy on the exportation of substances which are banned, recalled or otherwise regulated in the United States. After a federal policy is adopted, an interagency working group will be formed to recommend specific mechanisms for implementing the policy.

### *Multilateral Programs*

#### Multilateral Development Banks

The United States will be looking at the World Bank's efforts in environmental protection in order to assess whether a greater effort by the Bank is warranted to insure that environmental concerns are more integrally involved in its project design process and the number of environmental projects increased. Much more concern for environmental issues is needed in all the MDBs, especially in the Asian Development Bank. AID and CEQ are studying a proposal that the USG develop a position on the MDBs' environmental efforts in order to give the U.S. Executive Directors a policy to make known and advocate to the banks.

#### UN Environment Programme

UNEP's mission is to direct and coordinate the UN's environmental programs and to stimulate action on global environmental problems. Through UNEP efforts, LDCs are giving increased attention to preservation of their environment.

The United States played a major role in the creation of UNEP and remains a major sponsor. In October 1978 UNEP Executive Director Mostafa Tolba visited a number of USG agencies, including State, AID, CEQ, EPA and DOE, to discuss better ways to cooperate internationally in protecting the environment.

UN Development Programme

UNDP is beginning to consider environmental factors in its project formulation process. Approval of projects now includes some environmental considerations. These will, hopefully, be strengthened and more formalized in the future.

Other UN Agencies

Environmental considerations are included in the planning of the programs of WHO, FAO and UNESCO. More than 100 FAO field experts around the world are working in the areas of wildlife management, soil conservation, sand dune reforestation, national park planning, and other conservation programs. The UN Economic Commissions for Europe, Africa, Latin America, Asia and the Pacific, and Western Asia all have environmental activity programs. The Habitat and Human Settlements Foundation is concerned with the relationship between human living conditions and environment.

*Present Trends and Future Prospects*

AID's near-term program calls for improvements in environmental procedures to help the Agency move away from a preoccupation with individual project soundness and towards more effective overall environmental planning. Also, it will inventory LDCs' environmental problems as a basis for discussion in its Country Development Strategy Statements. The inventories will assist future program formulation directed at the conservation and rehabilitation of the natural resource base on which all human and economic activity depends.

Proposals have been made both inside and outside the Administration for greater leadership by and coordination among the U.S. Executive Directors in the MDBs on environmental protection issues. These will be studied and considered for action in the near future.

The implementation of the recent Executive Order relating to responsibilities of USG agencies outside the United States will be studied carefully to insure conformance with overall U.S. policy.

The concern for environmental quality is more than an effort to minimize the damage of developmental change. Development strategies and patterns of assistance must be conceived and assessed in the context of the totality of the carrying capacity of the globe and the finite nature of the earth's resources. Without increased attention to more efficient management of existing resources and greater investment in the research of alternative technologies and production processes using renewable energy sources, neither successful development nor sustainable growth will be achieved.

Environmental concerns know no national bounds. Both the developed and developing countries have much at stake. As world demands for land, water, minerals and energy increase, and as the costs of converting those resources into consumable goods and services increase, there is a growing apprehenesion that the gap between the affluent and the impoverished is inexorably widening, thus diminishing the quality of life for all.

In saying this, we do not mean to be excessively pessimistic. We do, however, assert that business as usual is not enough. It is now time to begin to consider and to act on our knowledge that there is an outer limit to global resources.

# CHAPTER IX

# Technologies and Systems for Development

## A. Industrial Development

As countries proceed with their economic development, industry typically accounts for an increasing share of Gross Domestic Product (GDP). Industrialization can be accomplished through a variety of policies and can result in a variety of production patterns, from emphasis on import substitution to export development. In the past, significant emphasis was placed on import substitution in the LDCs, but in recent years—in large part in recognition of the costs and distortions often associated with import substitution—many LDCs have moved to a more open industrialization policy emphasizing export development.

*Recent Historical Record*

Industry accounts for a significantly higher percentage of total production in middle-income countries than in low-income countries, but in both groups the share of production accounted for by industry has substantially increased over time.

**TABLE 13**

**Distribution of GDP (%)**

| | Agriculture | | Industry | | Services | |
|---|---|---|---|---|---|---|
| | 1960 | 1976 | 1960 | 1976 | 1960 | 1976 |
| Countries with 1976 per capita incomes of $250 or less | 52 | 45 | 12 | 19 | 35 | 39 |
| LDCs with higher per capita incomes | 26 | 21 | 23 | 32 | 46 | 45 |

SOURCE: *IBRD World Development Report, 1978.*

Total industrial value added in the LDCs has increased from $120 billion in 1960 to $350 billion in 1975, increasing the LDCs' share in total world industrial value added from 14 percent to 19 percent. Manufactured exports from LDCs grew at an average annual rate of 12.3 percent from 1960 to 1975, compared to 8.8 percent for the industrialized countries.

Although the above figures indicate overall improvement in the industrialization of LDCs, the performance has been quite uneven. For example, twelve countries account for approximately 80 percent of total LDC manufactured exports. Most of the countries in Sub-Sahara Africa still have very small and undeveloped industrial sectors. Manufactured exports from these countries are almost negligible except for some processing of primary products. Only five percent of exports from Sub-Saharan countries in 1975 was in manufactures, compared with 14 percent and 24 percent for non-African LDCs whose per capita incomes were respectively below and above $250.

At the other end of the spectrum, many Latin American countries have been quite successful with industrialization. Latin American manufacturing during the period 1970-76 attained a rate of growth higher than that of the mature industrial nations. Some Latin American countries now produce goods regarded out of the LDCs' reach a decade ago. Manufacturing now accounts for one-fifth of the region's total export earnings and has become increasingly competitive in the world market. There is now an increasing emphasis on industrial specialization, as well as on establishment of facilities which achieve high efficiency levels.

The IBRD's 1978 *World Development Report* projects exported manufactured goods in LDCs to increase at about 12 percent a year between 1977 and 1985 and to be "the most vigorous element in the growth of developing countries' exports." These projections reflect not only an evaluation of the potential of the LDCs to increase their manufacturing exports but also a recognition that for many of these countries their future economic performance, including their ability to generate jobs for their rapidly expanding workforce, is dependent upon their ability to expand their industrial production and exports. This report also projects the share of LDCs' manufactured exports in world manufactured exports to increase from nine percent to thirteen percent over the same period. If the industrial sector is indeed to be the fastest growing sector in LDCs over the next ten years, it is extremely important that this growth take place in a way to maximize its benefits for the poor in these countries.

*Industrial Development and Basic Human Needs*

An important issue facing LDCs and assistance donors alike is how to fashion industrialization strategies which have the maximum positive impact on income distribution and the attainment of LDC basic human needs objectives. It is often assumed that increasing industrialization and economic growth imply a worsening of income distribution. Evidence now exists, however, that the growth/equity tradeoff can be obviated through industrialization strategies that emphasize technologies appropriate for maximum effective use of LDC resources. Taiwan and Korea are the best examples of countries that have recently industrialized while at the same time improving their income distribution.*

The problem of satisfying basic human needs has at times been viewed primarily from the supply side (e.g., the provision of food and shelter). A complementary approach to the problem that is necessary for the solution to be self-sustaining is to increase the effective demand of the poor for the material necessities of life. Industrial development can contribute to increasing the purchasing power of the poor primarily by generating employment. In some LDCs the relatively slow growth and seasonal nature of agriculture make it an inadequate and unreliable source of increased employment. LDCs face large increases in the labor force which cannot be absorbed by the agricultural sector alone. Thus, growth of the industrial sector is critical. Industry can provide employment both in the overcrowded cities and in the rural areas.

It must be admitted that the historical record of industry in generating employment has not always been favorable. Employment growth has generally lagged considerably behind industrial growth. Some lag is to be expected because of productivity increases, but the relatively small gains in employment from industrial growth have other causes which should be addressed by LDC governments and foreign assistance donors.

The primary cause of the poor record of industry in generating employment has been the inappropriate use of capital-intensive technologies. These technologies may have been chosen over more labor-intensive

* See G. Ranis, "Development and the Distribution of Income: Some Counterevidence," *Challenge* (Sept./Oct., 1977)

technologies because they are modern, because they are recommended or required by a participating foreign donor, or because domestic policies encourage it. Examples of the most common policies which encourage capital-intensive over labor-intensive technologies are distorted capital/labor price ratios, low interest rates, escalated tariff structures and over-valued exchange rates. The employment-generating capacity of industry can be improved by a concerted effort of LDC governments and aid donors to modify existing policies that discourage labor-intensive technologies and to actively investigate alternative technologies when considering investments. It is, of course, possible that at times a capital-intensive technology may be appropriate, such as in mining, electric power production, and cement production. The relative factor price structures and factor endowments of most LDCs, however, will tend to favor labor-intensive technologies in most cases.

Industrial employment is particularly necessary to satisfy the basic human needs of the large and increasing numbers of urban poor. Most of these people cannot directly produce their own subsistence and therefore must rely on obtaining employment.

Besides generating employment, industrial development can contribute to a basic human needs strategy in several other important ways. For example, manufactured exports earn foreign exchange which can be used to import food. This is especially critical for those LDCs which do not have the natural resources with which to become self-sufficient in food. Foreign exchange is also necessary for importing other items related to basic human needs depending on the resource endowments of each country. A country need not produce every item related to basic human needs. For example, a country with marginal land for crop production might well do better to direct its resources into industrial activities which in the end will enable it to import more food than it could produce. A country that uses the principle of comparative advantage to decide what to produce and what to import may do better than a country that tries to satisfy basic human needs totally through domestic production.

Industry can also contribute to the satisfaction of basic human needs through the supply of required material inputs such as seed and fertilizer, building materials, and intermediate textiles.* Again, it is desirable that the principle of comparative advantage determine whether individual LDCs invest in these industries.

### *Small Scale Enterprises*

LDC governments and aid donors are beginning to recognize small-scale enterprises (SSEs) as valuable targets for investment in industry. SSEs tend to be labor-intensive and can be encouraged in both urban and rural areas. SSEs can be more efficient in generating employment because the data show that investment cost per job tends to increase, the larger the enterprise.**

Although SSEs have these advantages, they have commonly been discouraged by LDC government policies. For example, SSEs generally must pay more for capital equipment than larger enterprises. Tax policies also often favor the larger firms, especially with respect to tariffs. A major problem is the SSEs' difficulty in obtaining access to institutional credit. Many financial institutions in LDCs are not willing to adjust their lending policies to meet the peculiar needs of SSEs.

In designing a strategy to assist SSEs, the first step must be to correct government policies that discriminate against them. The World Bank's assistance strategy emphasizes working through development finance companies (DFCs) which in turn extend credit and technical assistance to SSEs. It is important for DFCs to recognize that access to credit is only the first step in solving the problems of SSEs. Many SSEs also require assistance with regard to such matters as market information, management skills, bookkeeping and financial control, project preparation, and choice of technology. Working through industry cooperatives and guilds may be another beneficial way to address the problems of SSEs.

### *External Assistance to LDC Industry*

Multilateral agencies provide the great bulk of official external assistance of programs in industry, industrial development, and finance. The IBRD is the largest donor to the sector (about $1.3 billion annually); however, its

* See M. Crosswell, "Basic Human Needs: A Development Planning Approach," AID Discussion Paper No. 38, October 1978, p. 25.
** See IBRD, "Employment and Development of Small Enterprises," Sector Policy Paper, February 1978, p. 19.

assistance levels have declined slightly, and the share of its total commitments accorded to the sector fell from 20 percent in 1976 to 15 percent in 1978.

A major thrust of IBRD lending is support for SSEs. For example, a $10 million IDA loan is providing credit, supporting facilities and institution-building assistance to the Kenya Industrial Estates, an export promotion agency. In Indonesia, a $40 million IDA loan seeks to strengthen SSEs in towns and rural areas, introduce labor-intensive technologies and create additional employment at a low cost per job.

The IBRD is also making loans to finance foreign exchange for DFCs in a number of countries. In addition, the Bank makes some loans for large industry such as to Brazil ($85 million) for constructing a petrochemicals plant.

The lending policy of the Inter-American Development Bank (IDB) for industry is to support activities which utilize local resources, have the potential to generate employment, and show promise of being competitive internationally (or, if import substituting, "provide clear expectation of economic efficiency"). The IDB is also supporting small and medium-sized industrial projects—in Barbados, Haiti, Bolivia, Peru, northeast Brazil, and Honduras.

The Asian Development Bank (ADB) aims its lending to the industry sector ($100-$200 million annually) toward promoting small and medium-scale industries, and helping LDCs to develop their basic industries. ADB assistance to DFCs is helping to channel and dispense funds to a large number of SSEs, identify and formulate projects, and disseminate modern management practices, and appropriate technologies.

The United Nations Industrial Development Organization (UNIDO) is the primary source of UN technical assistance to industry ($40 million per year). Established in 1966, UNIDO is playing an increasingly important role in considering choices among alternatives in the (a) transfer, adaptation, development and application of industrial technologies in LDCs; (b) mixes in LDC production of industrial goods and services; and, (c) location of industry.

U.S. bilateral assistance to industrial development is very limited, reflecting both the different emphasis of the legislative mandate, and the recognition of the predominant role of other donors. An example is an AID project to generate productive employment through the establishment of labor-intensive small and medium industries in the Caribbean area. Industry-related components are found in AID's agro-business activities, Appropriate Technology International (ATI) program activities in support of industrial research institutions and industrial extension services, support of the National Technical Information Service and the National Bureau of Standards' assistance programs in developing countries, as well as some large projects in the economic supporting assistance program related to specific Middle Eastern country industries.

OPIC's finance program provides investment guaranties, as well as direct loans to private projects in LDCs (61 percent of new guarantees and direct loans were committed to Africa in FY 1978). In addition, OPIC encourages U.S. investment in LDCs through its insurance program, preinvestment studies, and technical and other assistance to potential investors.

The U.S. recognizes that the development and expansion of LDC industries can at times cause adjustment problems for U.S. industry. The AID program in the development of its projects takes into account the potential impact on the U.S. economy and U.S. industry in order to avoid or minimize any potential adverse impact on U.S. industries resulting from AID industrial projects.

The trend in the industrial strategies of all donors appears to be in the direction of increasing assistance to smaller-scale enterprises and industries with labor-intensive technologies. Other high priorities are industries which earn or save foreign exchange and which produce critical intermediate inputs. Producing a critical input (such as processing hides for use in leathercraft production) might require a capital-intensive technique. While employment might not be significantly increased at the processing stage, it would be increased when leathercrafts are produced. The latter stage activity tends to be labor-intensive, and as a consequence the "enabling industry (high-processing)" leads indirectly to the generation of employment and income-earning opportunities.

These types of assistance will help insure that industrial development will not occur which benefits only the upper-income portion of the population or which concentrates on the production of non-essential or luxury items. If industrial development can be properly directed, it can make substantial contributions toward solving the most critical problems in LDCs, especially with regard to employment, foreign exchange constraints, and intermediate input bottlenecks.

The transfer of technology is another important form of external assistance for industrial development, carried on primarily by the private sector; it is discussed in more detail below in Section D.

## B. Urban Development

Urban development has many components: industry, transportation, power, water supply, sanitation, health, and education. Other sections of this chapter treat various of these. This section is concerned with the urban problem and the response to it.

### *The Urban Problem*

The rate and scale of urbanization in LDCs are unprecedented. Urban populations have generally expanded far more rapidly than total population. According to the IBRD's *World Development Report,* the percentage of population in urban areas increased from 1960 to 1975 from 8 percent to 13 percent, in the case of countries with per capita incomes of less than $250 in 1975, and from 32 percent to 43 percent for LDCs with higher per capita incomes.

While rural-to-urban migration is a principal cause, natural increase is no less a significant factor. In fact, were it possible to stop the flow of rural migrants to the cities, there still would be enormous problems to be solved. For example, Mexico City, with eleven million people now, would grow to twenty-one million by the year 2000—even if the urban influx could somehow be stopped.

There appears to be no uniform pattern of migration; it varies from country to country and within countries. However, it is occurring mainly in the poorer segments of societies. In some cities in developing countries, squatter and slum dwellers comprise the majority of the population.

Many policy biases have created strong incentives to expand economic activity in urban rather than rural areas, and have thus encouraged people to move to urban areas in the expectation of higher paid jobs and better access to services. Unfortuantely, the economic growth rate, and consequently the rate of job creation, have been insufficient to absorb the growing number of job seekers, especially the semi-skilled and unskilled.

The rapid pace of urbanization has placed great strain on existing essential services and facilities. In most cities in the developing world these facilities and services were insufficient at best. The growing demand has made a bad situation even worse.

Rapid urban growth adds to the potential for political unrest. Studies of urban development indicate that the native-born urban dweller has higher expectations, is more selective in what he or she will settle for as a compromise, and, therefore, pursues promises of a better life under a new regime more aggressively. On the other hand, the rural-to-urban migrant initially has lower expectations that can be met more easily. Thus he/she is willing to "make do" and is more open to exploitation. Being so preoccupied with survival in a new and often hostile environment, the rural-to-urban migrant has little time or energy for political activity.

To meet the needs which market forces and governmental interventions fail to meet, people are using do-it-yourself remedies. Thus, one sees the squatter settlements and shanty towns which are so characteristic of many cities in developing countries, the conversion and overuse of existing buildings, the pirating of electricity and water, the proliferation of uncontrolled economic activity, and a wide range of illegal activities—all manifestations of the poor's effort to survive in an overtaxed urban environment.

The severe strain on urban services and labor markets is reflected in highly dualistic urban systems, where islands of high income "modernity" coexist with the shanty towns and slums. According to the World Development Report, the permanence of the new peripheral urban settlements has not been adequately recognized, and municipal financing and management have not received the attention they need. As a result, little has been done either to deal with the appalling inadequacy of essential services, such as sanitation, in these settlements, or to assist the large part of the urban economy that consists of small-scale and informal production activities, which operate at low levels of productivity.

*The Latin American Case*

The urban problem is exemplified most dramatically by Latin America. The region is unique among developing areas in the level of urbanization reached, as the following statistics indicate.

## TABLE 14

**Developing Countries: Urban Population, 1960-75**

| | Percentage of Total Population 1960 | 1975 | Average Annual Growth Rate 1960-75 |
|---|---|---|---|
| Sub-Saharan Africa | 14 | 19 | 5.0 |
| North Africa and Middle East | 32 | 44 | 5.0 |
| Latin America | 49 | 61 | 4.3 |
| Asia | 17 | 22 | 4.0 |
| Southern Europe | 40 | 51 | 3.2 |

SOURCE: Selected World Demographic Indicators by Countries, 1950-2000 (New York: United Nations, 1975).

Not only is over 60 percent of the population of Latin America already urban, but the proportion is expected to grow to 75 percent within the next twenty years. The World Bank's annual report for 1978 details some of the problems associated with this growth rate:

> *Such unprecedented urban growth, coupled with limited financial and institutional capacity . . . has led to serious shortfalls of basic services, shelter, and full-time employment—especially among the poor . . . About one-fourth of those living in the major cities still have no direct water supply; almost two-thirds have no sewerage facilities. As for shelter, urban growth has outstripped the supply of planned housing five-fold. . . .*
>
> *Income distribution is typically skewed . . . Nearly 50 million urban dwellers in Latin America live below the urban poverty threshold. . . . Urban unemployment and underemployment are high, and widespread low productivity and earnings are even more serious problems.*
>
> *Many of the poor are forced to live in unplanned settlements, often located in peripheral areas where travel time to and from work each day may exceed three to four hours. The prevalence of disease in such settlements is sometimes as much as 50 percent higher than the citywide average. Such conditions further erode the productivity of the poor and can lead to a self-perpetuating cycle of poverty.*

*Gaps in the Response*

Economic development and equity are the two major emphases pervading efforts of governments and assistance donors to address urban problems. These efforts attest to the multifaceted nature of the response to the urban problem, including programs in:

—rural development to seek, among other things, to stem the flow of people to already overburdened cities;
—area and regional development to focus on backward regions to try to bring them into the mainstream of the national economy;
—employment of various kinds to provide or upgrade skills, as well as create job opportunities and more income; and,
—social services to help provide essential educational, family planning, health and social welfare support to the poorer segments of society.

But serious gaps impede current efforts. *The knowledge base still is lacking in some fundamental ways*. There has been an explosion of knowledge in recent years. Yet little is known about the factors which result in some rural-to-urban migrants being upwardly mobile from the day they arrive in a city, while others with similar backgrounds become mired down and never "make it". Information is scanty on the informal sector which provides the livelihood for countless thousands in these countries.

*Technology is deficient*. For example, for large agglomerations of people, there is no technology between the pit latrine and the flush toilet. Environmentalists have forced the development of chemical toilets and other devices to reduce the pollution of inland lakes and streams, but nothing of an "intermediate" or "appropriate" nature has been developed for the Calcuttas, Rios and Bangkoks of this world.

*The private sector is not involved sufficiently*. This is especially true in many LDCs in which the private sector is small. It is true also of multinational corporations doing business in these countries. Private and voluntary organizations, such as CARE, Church World Service, the YMCA and others, would seem to be in a particularly strong position to help bridge this gap, given their relationships with business leaders at the management and corporate level and their involvement with the urban poor at the program and service level.

*AID Activities*

AID's Housing Guaranty Program is its major financing instrument for shelter and related service assistance. Since 1973, all AID shelter programs have been targeted for families earning below a median income—the poorer half of a given urban area. The program guarantees repayment to U.S. lenders for loans to housing institutions in LDCs.

AID's shelter strategy is to assist countries develop and pursue policies which provide improved and affordable shelter to larger numbers of low-income people. Honduras, Korea and the Ivory Coast are countries in which the Housing Guaranty Program has been instrumental in introducing new national housing policies to benefit low income families. The program supports squatter upgrading through the provision of sewerage, potable water, electricity and credit for home improvements; sites and services by the provision of a basic urbanized lot, with the family constructing its own dwelling unit; and low cost, expandable core housing units.

In addition, AID's shelter program seeks to assist poor countries increase their capacity to analyze their housing requirements, and to develop plans, policies and programs. It attempts to mobilize savings to provide credit to poor people and to minimize subsidies. AID helps local governments design community development programming in which shelter forms part of a package of comprehensive assistance to low income neighborhoods. New low-cost shelter solutions include core housing, sites and services, and slum upgrading as well as the use of new construction and land use standards which recognize the importance of self-help minimum shelter forms. The program also encourages traditional, labor-intensive building technology. $147.3 million in housing gurantees were authorized in FY 1978 for projects in ten countries.

An AID grant to a private voluntary organization seeks to develop shelter and community improvement demonstration projects for the poor using new techniques in self-construction, non-conventional finance and community organization. Projects are under way in Lesotho, Botswana, Honduras, Peru, Jamaica, Panama and Paraguay.

Among other grants, the Integrated Improvement Program for the Urban Poor—jointly with shelter programs assisted by Housing Guarantees—assists host country institutions to develop and demonstrate ways in which essential service can be provided efficiently and equitably, epecially in low-income areas. Activities under the project are planned for Bolivia, Cameroon, Honduras, the Philippines, Sudan, Thailand, Kenya and Ghana. Other activities seek to help LDCs become more aware of the latest developments in conservation of energy and more effective use of solar energy.

AID also has a small research and development program in urban and regional development. The program is designed to provide technical support, to promote the design and implementation of field testing and demonstration projects, and to keep AID apprised of urban and regional aspects and issues in the development process.

To help develop the capacity to plan at the local and regional levels, AID is supporting:

—land use programming in intermediate-sized cities in Nicaragua, Thailand, and Ghana;

—identification, analysis, and planning of urban-based services in support of rural development in the Philippines, Bolivia, and Upper Volta;

—approaches and techniques for urban and regional analysis in Costa Rica, Panama, Nicaragua, and Honduras; and,

—identification and inclusion of farmers' views in the planning process in Guatemala and Bangladesh.

Other activities seek to relate more directly to problems of poor people. Included are efforts to:

—assess and increase the job-creating and income producing capabilities of small-scale enterprises;

—assess and increase the employment impact of the Housing Guaranty loan program and other large capital programs;

—develop and test low-cost outreach techniques for assisting individual enterprises in the informal sector of the economy;

—develop at the local level the financial and other resources needed to provide essential services equitably; and

—demonstrate ways to deliver services to meet basic human needs of the urban poor more effectively and efficiently.

AID gives consideration to the broader issues of urbanization in national development, including migration and fertility patterns and differentials, resource conservation, and the acquisition of appropriate technologies to meet developing country needs.

*Activities of the World Bank*

After exploring the problems and possibilities of urban development in depth in the early 1970's, the World Bank has developed a vigorous and rapidly expanding program focusing on urban poverty. From an average of two to three projects per year several years ago, the Bank now is financing 12 to 15 projects per year in urban development. This accounts for six percent of Bank lending per year ($368 million in FY 1978) and does not include water supply, power and other projects which relate directly to urban development.

The growth in urban development activities is expected to continue since: (1) the Bank anticipates that the long run structural shifts in most developing country economics will continue to be urban; and (2) the results of the Bank's new initiatives in the urban field thus far have been essentially positive. Changes in Bank programming probably will address the relative size and scale of projects, and intensify the present focus on poverty.

The Bank's emphasis is on urban projects addressing problems of the poor—upgrading squatter conditions and improving sites and services, urban transportation, and small enterprise and employment development. In a typical project, the first step is an analysis of the needs and priorities of a particular slum or city. The likely follow-up to this analysis is development of an integrated project which seeks to address all of the problem areas noted above.

Loans made to Kenya and Tanzania in 1978 exemplify the specific targeting of services (especially housing) to the urban poor, through focusing on upgrading of existing areas of squatter concentration. Cost of services will be kept at a minimum to bring them within reach of the target group; and through near-full cost recovery, the projects will be able to be replicated.

While much of the Bank's present work is in large cities, there is a trend towards projects in lesser centers. For example, sometimes, as in Indonesia and the Philippines, an urban development program will be initiated in a large or capital city and move into other cities in the second or third stages of the project. Fundamentally, however, the Bank prefers to deal in cities at least in the half million population range and above, since it is convinced that this is where the major urban growth will take place in the foreseeable future.

To a lesser extent, the Bank also is working in a regional development context. For example, it is helping small cities—soon to be rapidly growing "boom towns"—in the oil discovery region of Mexico, in the southern region of the Republic of Korea, and with medium-sized cities in several regions of Brazil.

The Bank has been "learning by doing." Innovation has been a prime goal of its involvement in basic urbanization, and the design of its most recent projects (particularly in Latin America) has been improved in several ways: First, job generation has received increasing emphasis, and now accounts for about 10 percent of total investment. Second, recent projects have increasingly emphasized improved administration and greater community participation. Third, slum upgrading is being expanded, since it offers the most effective means of delivering services to the largest number of existing urban poor. At the same time, there has been no reduction in the pace of serviced site development.

One centerpiece of the urban research program is the so called "City Study" in Bogota which is the case study of the development of a city in all of its social, economic, demographic and other aspects. The study is an attempt to find out "what makes a city tick." Other research is being undertaken in land use, acquisition and finance and the economics of poverty.

*IDB Activities*

The IDB is seeking to structure its urban development program so as to be more responsive to the resolutions adopted at the UN Habitat Conference in Vancouver in 1976. The United States believes that any new Bank programs in this area should be directed at the basic needs of the poor, e.g., water and sewers, community development and employment.

Presently, Bank programs in urban development evolve around the concept of urbanization and land use, by financing sites and services projects and industrial parks. A $13.2 million dollar regional development scheme, targeted on small cities in northern El Salvador, is modeled on a community development approach and includes small scale public works and credits for small enterprise. In Colombia, a $41 million FSO loan is helping to finance implementation of an integrated urban development plan for Buenaventura. It is designed to benefit low income families by improving basic services, razing the tidewater slums, and transferring the inhabitants to new areas of the city.

A technical cooperation grant of $825,000 carried out by the IDB with the Fundacao Instituto de Pesquisas Economicas of Brazil, seeks to facilitate understanding of urban problems and trends, promote postgraduate training in urban economics, and strengthen institutions engaged in research and training.

*UN Activities*

The UN urban programs have been influenced by the preparations for, and conclusions, of the UN Habitat Conference. The overall aim of UN programs in "Human Settlements" (the UN code word for urban development) is to "improve the basis for policy and decision making on human settlements at the national, regional and international levels." This program is carried out by many specialized UN agencies as well as the UNDP and the newly established Nairobi-based Center on Human Settlements (Habitat). The Center is the UN's most dramatic response to the resolutions adopted by the Habitat Conference. Headed by Executive Director Dr. Arcot Ramachandran, the Center includes elements drawn from the UN's Center for Housing, Building and Planning and the UN Habitat and Human Settlements Foundation.

The UN program is designed to provide (a) technical cooperation in policy formulation, management and institutional improvements, education, training, and applied research on human settlements, (b) technical and financial cooperation to countries engaged in self-help and cooperative housing, integrated rural development, water and transportation, and (c) assistance in strengthening information systems.

The UN stresses integrated policies and adoption of priorities. Programs are intended to lead to development guidelines and action proposals. The UN regional commissions also have broad comprehensive programs dealing with human settlement policies.

Research includes demographic studies, environmental and planning studies, research into construction techniques and materials, and studies on labor intensity and employment generation.

*Conclusion*

The urban problem is serious, and getting worse. The future of the world's urban areas is one of the most pressing concerns before us as we move toward this century's end. Assistance donors are refocusing their programs to place more emphasis on needs of the poor, to test new approaches, to stress integrated development and increase planning capacities. But we need to know much more. The private sector must be involved increasingly, and natural increase slowed before rural-to-urban migration can be kept within desirable limits and urban services provided at an adequate level.

**C. Transportation and Telecommunications**

There are three major distinguishing characteristics of the problems and programs in transportation and telecommunications:

—Significant development needs exist in both urban and rural areas, although facilities are concentrated—and problems more evident—in the cities. As the urban sector increases in relative importance, the linkages provided by adequate systems of transportation and telecommunications will become more essential to the distribution of goods and services and to the achievement of integrated economies and societies.

—As countries become more developed, their problems in transportation and telecommunications become more severe.

—Multilateral institutions provide almost all of the assistance to the sectors. The ADB, IBRD, and IDB have recently programmed 16 percent, 15 percent and 13 percent respectively of their total lending for these purposes. AID's few large-scale transportation projects are financed by supporting assistance. However, since a major component of many rural development projects is farm-to-market roads, a current policy issue for AID is the extent to which AID should broaden its assistance to facilitate access to larger markets and to assure delivery of goods and services to meet basic human needs.

*Transportation*

In less developed economies, many of the goods being transported are likely to be high-bulk, low value products. The World Bank has estimated that costs of transportation may account for half of the receipts from these goods. Where inadequate facilities or inefficient operation add to transportation costs, the impact on profitability and output can be decisive. Transportation costs within LDCs are likely to influence significantly the locational patterns of development.

Both LDCs and developed countries frequently suffer from lack of comprehensive transportation policy and planning. Lack of data and trained personnel compound this problem for the LDCs. Unique to LDCs is the problem of adaptation of technology—much of it labor-saving in nature—to their own situations.

Transportation problems are particularly acute in larger cities. With increasing urbanization comes the imperative to focus more attention on transportation as one integral part of a comprehensive approach to urban development.

A World Bank sector policy paper details some of the deficiencies of urban transportation: Congestion is so severe in some cities that, for periods of more than twelve hours a day, road speeds in central areas average seven to ten miles per hour. And this is happening even in cities where private automobile ownership is still low.

Public transportation is overcrowded, and often unrelated to urban growth patterns. Buses break down frequently, and are poorly serviced and maintained. Railways are no better. Cycling is also important in poor cities, where many people cannot afford any form of motorized transportation; it can be dangerous, however, and this cheap and potentially important mode of transportation is often underutilized. Finally, adding to difficulties of commercial traffic, facilities for transferring goods from rail or ship to road are generally seriously inadequate.

The World Bank agencies continue to provide the major source of assistance for transportation projects. In FY 1978, IBRD loans ($918 million) and IDA credits ($175 million) in the transportation sector totalled over a billion dollars ($1,093 millions). For example, to finance Egypt's program for the deepening and widening of the Suez Canal in order to accommodate more and larger ships, the Bank approved a $100 million loan as part of a billion-dollar project to improve the Canal's facilities by 1980. The majority of Bank lending in transportation was for highways, including $114 million to rehabilitate 1500 kilometers of federal highways in Brazil, and $110 million to construct and improve 670 kilometers of provincial roads in Thailand. Large loans for railways were made to Korea ($120 million) and Yugoslavia ($100 million).

The ADB has sought to meet growing needs at low cost, particularly in rural and underdeveloped areas. Road projects in Korea and the Philippines will serve an estimated population of three million people, providing improved access to marketing facilities and stimulating economic activities in the areas served. In Bangladesh and Papua New Guinea, projects are aimed at providing improved access between deep-water ports and their hinterlands. In addition, road projects create new job opportunities for unskilled labor, and narrow the gap between the rural and urban section of society.

ADB loans for port projects are helping LDCs to handle an increasing volume of traffic as well as changing traffic demands. Port projects aim to reduce overall costs in transferring cargo between ship and shore, and to facilitate access to overseas markets for domestic projects from the hinterland.

The IDB's lending for transportation has been influenced significantly by the need to increase agricultural productivity and production, and the IDB has stepped up its technical cooperation for rural areas and farm-to-market transportation projects. Chile, Costa Rica, Guatemala, and Panama all received loans for feeder roads.

A UNDP grant is helping Mauritania to strengthen the administrative and technical structures of its civil aviation services, and to train Mauritanians to run services effectively.

*Telecommunications*

The uses of telecommunications in development range from satellites for climatic forecasting and agricultural uses, to radios for educational programming purposes particularly in more remote areas, to telephone and computer systems. Telecommunications is an area in which the benefits for development can be significant if the technology is aptly and innovatively applied to meet the special needs of the developing countries.

Good telecommunications systems facilitate the provision of services to address basic human needs. Where literacy is low, telephone conversations may be particularly suitable for settling transactions which require checking and bargaining. Yet, in most LDCs, most telephones can be found in a few cities, with little service for other large populated areas. Typically, plant is obsolete and new technologies are not applied.

In Jamaica, UNDP has been helping to establish a Telecommunications and Electronic Training Center. When completed, it will graduate about 500 persons per year to fill technical and management positions in engineering industry. UNDP is also financing a "Multi-Country Postal and Telecommunications Training Scheme" serving Botswana, Lesotho, Malawi, and Swaziland.

The IDB has provided a technical cooperation grant to determine the most efficient transmission system required for an interconnected electric power system for Central America and Panama. Another such grant is supporting a feasibility study for a Latin American telecommunications network for interbank transactions.

An IBRD loan of $120 million will help to finance a significant extension of India's telecommunications network into rural areas, and to upgrade and modernize production facilities of equipment manufacturers. An IDA loan of $14.5 million to Nepal will help meet 70% of the demand for local telephone service. In Egypt, IDA funding ($53 million) will assist in the installation of 226,000 local exchange lines. Other bank loans made in FY 1978 are contributing to modernization and expansion of telecommunications in Costa Rica and El Salvador.

*Trends and Prospects*

Much remains to be done in the application of telecommunications technology in the less developed countries. In 1978 the U.S. government began an inventory of its communications assistance to assess what the impact of our assistance is and what problems remain to be solved. As the nations of the world are brought closer through communications, the need and opportunities for use of the technology increases; our challenge is to discover the means to apply these systems for our collective benefits.

## D. Science and Technology

Science and technology provide knowledge and techniques essential for the development of human resources, for the prudent management of natural resources and the environment, and for the provision of goods and services which sustain society and enhance the quality of life.

Science and technology, thus, plays a fundamental role in addressing basic human needs. Their effective use is basic to the eradication of extreme poverty, reduction of widespread malnutrition, infectious diseases and other health hazards including those associated with frequent childbirth; to the modernization and growth of national economies; and to the bolstering of domestic production of basic agricultural and consumer goods and services. Recognizing this, LDCs are seeking to increase their capacity to generate and apply their own technology and to adapt foreign technology to their needs. The U.S. supports efforts to adapt and apply technology to the solution of problems related to development, as we realize that new, more efficient technology will be needed both at home and abroad to exploit ever more limited resources.

The transfer of technologies to meet specific needs must be based on the development in the LDCs of the capacity to select the technology most appropriate to those needs, available manpower skills and resource endowments, and to apply the technology effectively. In many cases a technology involving relatively modest capital costs and greater reliance on inexpensive, plentiful labor is preferable for economic and social reasons to technologies used in industrialized countries. In other cases, highly capital-intensive technology may be the most appropriate. The decision depends on the problem to be solved and the economic situation and comparative advantage position of a particular country. This is true for developed as well as developing countries.

In recent years, the U.S. has responded to requests from LDCs to use or generate technologies more appropriate to the specific needs of their economies. In some cases research has shown availability of a wider variety of competing technologies than was originally known, and has identified simpler, smaller-scale techniques more suitable for specific developing country application.

The objectives of the U.S. foreign assistance program are to assist LDCs in problem analysis and definition, and in the identification of their needs as they relate to the selection, adaptation and transfer of technology. The U.S. also seeks to provide a flexible reservoir of scientific and technical expertise and information in fields such as agriculture, health, energy, environment, natural resources utilization, and the building of scientific and technical institutions. The Administration is attempting to expand its program of research and development to obtain know-how to solve key problems of development. It is beginning to identify and explore new and unused or under-utilized technologies with potential for LDC application and to transform promising technologies for practical application in the LDCs.

Although much more emphasis is needed, the U.S. Government has also begun to seek ways of meeting the growing demands of LDCs for technology transfer and assistance. It has concomitantly realized its own needs for more appropriate small-scale technology to solve domestic resource problems. This offers opportunities for collaboration with LDCs in developing these technologies, for example, in solar energy production. The remainder of this section will discuss the particular aspects of the U.S. effort and the science and technology assistance activities of international organizations.

*Key Policy and Program Activities*

The U.S. has translated its increased concern in these areas into specific initiatives, programs and other action during the past year. Science and technology assistance has become a focal point in the U.S. response to the North-South dialogue. Much has been done, but, more importantly, our recent efforts point to the opportunities which lie ahead for shaping science and technology policy and programs which help solve both LDC and U.S. problems.

*Institute for Scientific and Technological Cooperation*

In his speech in Caracas in March 1978, President Carter announced he would seek the creation of a foundation for international technological cooperation to work directly with U.S. institutions and with LDC institutions and agencies to improve scientific and technical capabilities in developing countries and to address cooperatively critical problems of development and problems of longer-range concern. As currently envisoned, the Institute for Scientific and Technological Cooperation (ISTC) would be organized and staffed specifically to deal with scientific and technical matters, and would be given the principal U.S. Government responsibility to conduct research on problems of development, to provide assistance to strengthen scientific and technological capacity in LDCs, and to stimulate U.S.-LDC cooperation in science and technology. A planning office was formed to prepare a detailed prospectus and budget for the ISTC for submission to the Congress in early 1979. If approved, the Institute would begin operation in the fall of 1979.

*Relations Between Developed and Less-Developed Countries*

Beyond the ISTC initiative, the Administration is reviewing the role of science and technology in relations between developed and less-developed countries. In assessing the degree to which U.S. scientific and technological resources have been applied to development, the review is addressing, *inter alia,* the following basic questions:

—How can science and technology be a larger component of U.S. assistance to LDCs?
—How can the United States embark on a more extensive program of scientific and technological cooperation with LDCs, addressing the important problems of energy shortages, management of natural resources and protection of the environment?
—How can the U.S. Government organize and coordinate its science and technology activities more effectively in terms of their impact on LDCs and make its research and development effort more directly relevant to the poor of these countries?
—How can the United States assist in reducing obstacles in international markets that hinder the rapid and efficient transfer of commercial technology?

The review is expected to be completed in early 1979.

*UN Conference on Science and Technology for Development*

In 1979 there will be a new opportunity for U.S. and LDC officials to discuss technology transfer concerns. The UN Conference on Science and Technology for Development (UNCSTD), to be held in Vienna in August 1979, will focus on how science and technology can be applied more effectively in a global effort to accelerate social-economic development. The Conference will afford an opportunity to heighten U.S. Government understanding of the LDCs' needs and potentials and to determine our ability to assist them.

All agencies of the U.S. Government worked in close collaboration with the Chairman of the U.S. Delegation and the U.S. Coordinator for the Conference in preparing the U.S. national paper, and they have endeavored to obtain a broadly representative cross-section of nongovernmental input into U.S. preparations for the meeting. In this connection, AID has funded a number of studies designed to provide the background required in formulating U.S. positions on the subjects that appear on the agenda. Feasibility studies have been supported on a number of initiatives which have considerable potential, and an inventory is being prepared of U.S. Government projects which relate to problems on the Conference agenda. These will include AID's successful international agricultural research centers projects, which might serve as models for a similar approach in other fields.

In response to requests from LDCs, AID is supplying U.S. advisors to assist LDCs in preparing their national papers for the Conference—papers which assess the extent to which science and technology could be applied to the development of each nation. To ensure that the knowledge and experience of the international non-governmental science and technology community are given serious consideration at the Conference, AID joined others in providing funds to enable LDC scientists and engineers to participate in an International Symposium on Science and Technology for Development in Singapore in late January 1979. The Symposium will be the source of the major substantive contribution to UNCSTD from the world's scientific and technological community. It will focus on institutional and other innovations to enhance opportunities for scientists and engineers in industrialized countries to play a role in LDC development. Sponsors included the International Council of Scientific Unions, the World Federation of Engineering Organizations and twelve other prestigious international scholarly organizations.

*Appropriate Technology*

The technology which is most appropriate for solving a particular problem depends on the development goals of the country and the circumstances in which the technology will be used. The technology apppropriate to many of the needs of LDCs is the same modern, sophisticated technology used in the developed countries. On the other hand, modern, sophisticated technologies may not be cost-efficient in all contexts.

Much of the advanced technology of the world—the machinery, equipment and production techniques regarded as signs of development—has been produced by and for developed economies. Engineers and scientists trained in developed countries, foreign private investors which use developed country management personnel and equipment, and developed country planners themselves have not always recognized the need for adapting these technologies to LDC conditions and needs, or finding more appropriate ones altogether. Moreover, policies pursued by many LDCs in an effort to hasten their development sometimes favor adoption of inappropriate technology. For example, many LDCs have had import regulations, low interest loans and tax concessions favoring acquisition of capital goods, and they have employed social services policies and practices which work against equity in income distribution and greater employment opportunities in the modern sector. Developed country policies and interests, such as tied aid and export-promotion concerns, in some cases also promote the use in developing countries of inappropriate technology.

Pursuant to a 1975 amendment to the Foreign Assistance Act, Appropriate Technology International (ATI) was created in 1977 as an independent, private, nonprofit corporation to promote utilization of appropriate technologies by LDCs. Under an initial AID grant of $1 million, ATI has developed a plan of work and has made a series of subgrants. The second grant, made in August 1978, anticipates the growth of ATI's program to the level of $10 million per year within the next three years.

Developing countries also seek new institutions for dissemination, adaptation and discovery of technological information. They have asked help in establishing technology centers located in LDCs to develop and exchange new or adapted designs for local training of industrial engineers, for a technology bank administered by UNIDO, and for the development of national industrial policies which would encourage their trainees to pursue their work in the LDCs. The United States has supported these initiatives and has proposed creation of an international Network for the Exchange of Technological Information (accepted at the UN Seventh Special Session).

*Proprietary Technology*

To facilitate the transfer, adaptation and application of needed technologies, LDCs are pressing in UNCTAD for a mandatory code of conduct covering all forms of commercial technology transfer to regulate terms and conditions of contracts by which owners license or otherwise provide their technology. They have also proposed revisions of the Paris International Industrial Property Convention to reduce the protection for patent owners, which they believe will lead to freer and earlier access to proprietary technology.

The Unted States supports negotiation of voluntary guidelines for enterprises and governments which would foster a balanced and mutually-satisfactory framework within which the benefits of commercial technology transfer can be maximized for all parties. Our objective is a stable climate for technology transfer that enhances the mutual confidence of all and accommodates both the development aims of the LDCs and the proprietary interests of technology suppliers. The U.S. believes that a legally-binding code is not a realistic objective given the difference in views of developed and developing countries and we are concerned that adoption of such a code might work as a disincentive to technology transfer if it were highly restrictive. In November 1975 the United States and other industrialized countries submitted to UNCTAD their own draft guidelines containing general principles and responsibilities of governments and enterprises in technology transfer. Major areas of disagreement in the respective proposals include the legal nature of the Code, the extent and basis of government regulations, "guaranties" by suppliers and restrictive business practices.

Following six meetings of an Intergovernment Group of Experts since 1976, a UN Conference on the Code of Conduct was held in October and November 1978 in order to complete work on a compromise draft. The Conference was unable to resolve many of the Code's issues, although concrete progress was made in selected chapters of the Code. The Conference will resume briefly in February 1979 to continue its work.

The LDCs maintain, also, that the present international patent system, as embodied in the Paris International Industrial Property Convention and national patent laws, limits their access to and increases the cost of technology necessary for their economic development. They seek changes in the Paris Convention that would lower the level of international patent protection. Some are changing their national legislation to accomplish this. The U.S. view is that adequate protection of industrial property rights by developing countries is essential to the continuation and acceleration of the transfer of technology and the encouragement of indigenous research and development (R&D). The United States participates in the work now underway in the Preparatory Intergovernmental Committee of the World Intellectual Property Organization (WIPO), which administers the

Paris Convention, to undertake revisions in the Convention. Our objective is to recognize legitimate needs of LDCs for access to technology while at the same time protecting the rights of inventors. The United States has drawn attention to the fact that the vast majority of useful technology in developed market economy countries is privately owned; that the cost of developing such technology is considerable; and that its transfer is time-consuming and expensive. Consequently, the transfer of privately-owned technology can only take place under mutually acceptable terms and with assurances that the rights of technology owners will be protected. A Diplomatic Conference to revise the Paris Convention is scheduled for 1980, probably in the first half of the year.

*International Organizations*

United Nations organizations, primarily UNDP and UNIDO, have provided LDCs with technical assistance. The United States has encouraged these activities and had been, through both assessed and voluntary contributions, a major source of funding for UN activities involving science and technology.

UNDP promotes technology transfer and industrial development through its coordinating role in the UN development system. It is the largest technical assistance institution in the world. Its activities involve funding of projects as well as a range of other activities, including the underwriting of a large part of the technical assistance programs of UN executing agencies such as UNESCO and FAO.

UNDP funds many small-scale technical assistance projects to assist governments in formulating their development plans and in building up governmental administration machinery in the fields of agricultural and industrial production, health, education, energy, transport, communications and others. It also funds larger-scale projects to help LDCs locate opportunities for economic development investment, the funds for which can be provided by donors such as the World Bank. These projects usually include training programs to develop competent personnel to carry on the development work.

UNIDO promotes industrial development by making experts available, training developing country personnel and establishing pilot institutions for promoting the introduction of appropriate technology.

Like U.S. bilateral assistance agencies and the UN development organizations, MDBs also concentrate on providing technology which is appropriate to the development needs of LDCs. In 1978 the IBRD was involved in a number of internationally supported and managed research and development efforts, including WHO research on tropical diseases; international market development and research for cotton (with the Rockefeller Foundation and the U.S. Government); and onchocerciasis (river blindness) research and operational program in the Sahel. It also has underway its own research and development projects in the areas of low-cost alternatives to sewerage systems; low-cost civil works construction using labor-intensive techniques; agricultural research and extension systems; and industrial research.

Some Bank officials would like to see the IBRD develop an institutional capability for becoming a major source of substantive technological assistance for building indigenous LDC technological capacity and innovation. The Bank now plans to involve itself in programmatic areas where major commercial entities choose not to go, and it will do so largely by supporting the exploration of innovative technological approaches to development problems through pilot projects. The financial resources of the Bank permit it to try out ideas on a sufficiently large scale to determine whether certain approaches can be used efficiently under different sets of development circumstances.

The regional banks have also become more involved in appropriate technology activities. The Inter-American Development Bank's (IDB) development strategy now relies heavily on appropriate technology in the operations it finances. The Asian Development Bank (ADB) has incorporated an assessment of intermediate or light capital technologies into its project identification and evaluation procedures. It has also adopted a number of supportive policies designed to facilitate the most appropriate intermediate or light capital technologies into all the projects financed by the Bank.

While it has had no formal policy on technology up to now, the African Development Fund (AfDF) has drafted new lending guidelines which specifically emphasize the need to apply appropriate light capital techniques in Fund projects. Since the AfDF is of relatively recent origin, it relies heavily on the technical expertise of other institutions, such as FAO, UNDP and the World Bank, with which it jointly finances many Fund projects.

*Prospects*

Scientific cooperation with and assistance to LDCs, the search for new, innovative and appropriate technologies for economic growth and development, and the adaptation of existing technologies and their transfer to LDCs will continue to be very difficult and perplexing issues for both developed and developing countries as we work to bridge the gap between the world's rich and poor. These issues will need the increasing attention of the best minds we can find in order to avoid their becoming impediments to development and to greater harmony between developed countries and LDCs.

# CHAPTER X

# Development and International Economic Policy

## A. Trade

*Trade Relations Between the Developed and Less Developed Countries*

Trade provides an important stimulus to economic growth in the developing countries. The export markets' demand for developing countries' output provides employment and income, and the foreign exchange earnings finance imports that are critical to Third World nations' development strategies. In 1977, for example, developing countries earned more foreign exchange from an average month's exports to the 17 members of the OECD's Development Assistance Committee than they received from the DAC in Official Development Assistance and Other Official Flows during the entire year. For middle-income developing countries in particular, a strong export performance is essential to the maintenance of a favorable credit rating among private international lending institutions. As many of these countries are phased out of concessional development assistance programs, continued access to commercial financing is necessary to maintain adequate investment. Participation in international trade also has the important effect of increasing the efficiency of resource allocation in the domestic economy by encouraging producers to become internationally competitive.

The developing countries play a significant role in the international trade performance of the industrialized countries. In the case of the United States, the growth of exports to the developing countries during the 1970s has exceeded that to any other major trading partner. Moreover, with the exception of fuel, U.S. exports during 1970-77 to developing countries grew at essentially the same rate as the LDCs' exports to us (19.4 percent).

A healthy export situation for the developing countries has a positive impact on the domestic economies of developed countries. Increased income in the developing world can partially offset declines in domestic demand in the industrialized countries. During the recession of 1973-75, for example, U.S. exports to developing countries increased by 65 percent compared to an increase of 36 percent in U.S. exports to other industrialized countries. The advance of developing countries has been particularly helpful to developed country producers of manufactured goods; developed country sales of manufactured exports to developing countries are approximately five times the value of developing countries' manufactured exports to developed countries. Consumers in the industrialized countries benefit from the restraint on inflation and the expansion of product choice that are provided by imports from developing countries.

There has been a tremendous expansion of international trade during the 1970s. The growth of world export value from $282 billion in 1970 to $1,023 billion in 1977 corresponded to an average annual growth rate of 20.2 percent. Much of that expansion was a reflection of inflation and the dramatic oil price increases, but the growth in export volume also was substantial, amounting to an average annual rate of 6.2 percent. Export volume during the first half of 1978 was 5.8 percent above the level for the corresponding semester in 1977.

**TABLE 15**

**Pattern of World Exports**

| | EXPORTS (f.o.b., $ Billion) 1970 | 1977 | Average Annual Growth Rate (%) 1970-1977 |
|---|---|---|---|
| World Exports | 282.2 | 1023.2 | 20.2 |
| To Developed Countries | 222.1 | 753.7 | 19.1 |
| To OPEC | 9.3 | 81.5 | 36.4 |
| To Non-OPEC LDCs | 44.6 | 159.5 | 20.0 |
| Developed Country Exports | 226.9 | 741.7 | 18.4 |
| To Developed Countries | 174.9 | 525.3 | 17.0 |
| To OPEC | 7.8 | 68.0 | 36.3 |
| To Non-OPEC LDCs | 32.9 | 99.6 | 17.1 |
| OPEC Exports | 17.7 | 143.9 | 34.9 |
| To Developed Countries | 14.0 | 111.5 | 34.5 |
| To OPEC | .1 | 1.7 | 49.9 |
| To Non-OPEC LDCs | 3.2 | 30.2 | 37.8 |
| Non-OPEC LDC Exports | 36.5 | 131.7 | 20.1 |
| To Developed Countries | 26.2 | 90.3 | 19.3 |
| To OPEC | .9 | 9.1 | 39.2 |
| To Non-OPEC LDCs | 6.5 | 24.3 | 20.7 |

U.S. trade with OPEC and with non-OPEC developing countries during the 1970s is presented in Table 16. The impact of increased oil prices is evident, but the significant growth in our exports to OPEC members and the decline in our imports from them suggest that the oil shock to our trade account is subsiding. As for our trade with non-OPEC developing countries, both imports and exports are likely to show increases of approximately 20 percent over the 1977 totals, which represents a substantial decline in the growth of our deficit with those countries.

**TABLE 16**

**U.S. Trade Trends with Developing Countries**
($ Billion)

| | U.S. Exports | | U.S. Imports | | Balance of Trade | |
|---|---|---|---|---|---|---|
| | To OPEC | To Non-OPEC LDCs | from OPEC | from Non-OPEC LDCs | with OPEC | with Non-OPEC LDCs |
| 1970 | 2.1 | 10.0 | 1.7 | 8.6 | .4 | 1.4 |
| 1971 | 2.3 | 10.0 | 2.1 | 9.3 | .2 | .7 |
| 1972 | 2.8 | 11.0 | 2.7 | 11.5 | .1 | − .5 |
| 1973 | 3.6 | 16.0 | 3.9 | 15.2 | − .3 | .8 |
| 1974 | 6.7 | 24.0 | 15.6 | 23.5 | − 8.9 | .5 |
| 1975 | 10.8 | 27.0 | 17.1 | 21.8 | − 6.3 | 5.2 |
| 1976 | 12.6 | 26.3 | 25.0 | 27.2 | −12.4 | − .9 |
| 1977 | 14.0 | 27.7 | 33.0 | 33.8 | −19.0 | −6.1 |
| 1978[a] | 17.0 | 33.0 | 30.4 | 40.6 | −13.4 | −7.1 |

[a] Estimated

The developing countries have participated actively in the trade expansion. Their exports during 1970-77 grew annually by 26.2 percent in value and by 4.7 percent in volume. For the first half of 1978, LDC exports were up 4.3 percent in volume compared to a year earlier. This trade expansion depends significantly upon continued access to the markets in developed countries. Of the $118 billion that non-OPEC developing countries exported in 1976, 68 percent was sold to developed countries. The United States purchased approximately 25 percent of LDCs' total exports. Table 15 indicates the extent of LDCs' reliance on developed country markets. The industrialized nations account for the bulk of LDC exports in all categories except chemicals, and they are particularly prominent customers in crude materials, fuels, nonferrous metals and clothing.

Table 17 contains the 1977 U.S.-LDC balance of trade for major commodity categories and industries. If one excludes the trade in fuel, the United States registered a trade surplus of $12.2 billion with the developing countries. Major net import items included tea, coffee and cocoa, nonferrous metals, clothing and miscellaneous consumer goods. The principal commodities in U.S. exports to the LDCs were cereals, seed and feed, chemicals, industrial machinery, electrical machinery, road motor vehicles, aircraft and military equipment. The pattern of trade suggests that the impressive expansion of U.S.-LDC trade has occurred generally in accordance with the expected pattern of comparative advantage enjoyed by each sphere.

**TABLE 17**

**U.S.-LDC Balance of Trade—1977**

| | U.S. Exports to LDCs ($ million) | U.S. Imports from LDCs ($ Billion) | U.S. Trade Balance w/LDCs ($ Billion) |
|---|---|---|---|
| Foodstuffs | 6.67 | 9.44 | − 2.77 |
| Raw Materials | 2.60 | 3.51 | − .91 |
| Fuels | .68 | 37.91 | −37.23 |
| Manufactures | 31.80 | 15.92 | 15.88 |
| Total | 41.74 | 66.78 | −25.04 |
| (Excluding Fuel) | 41.06 | 28.87 | 12.19 |

*Primary Commodity Trade*

For many of the developing countries, particularly the low-income LDCs, trade really means trade in primary commodities. A large number of countries depend upon a single commodity to provide the bulk of foreign exchange earnings. These countries are very vulnerable to the price instability that is characteristic of commodity markets: a sharp fall in price results in a serious foreign exchange shortfall, while drastic price increases can generate export earnings in excess of what the country can absorb in the short-run. Price instability, however, is not the only concern of commodity producers. The long-term demand prospects for some commodities are not particularly attractive as a result either of increased competition from substitute products or of changing tastes. Although these countries must work to diversify their economies away from these commodities, realistically their economies will remain significantly dependent on them for some time.

Many developing countries feel that the problem of declining prices for their primary commodity exports extends well beyond a few commodities and consists of a general deterioration in the LDC's terms of trade with developed countries. They contend that their international purchasing power must be preserved and that mechanisms for linking the prices of their exports to their imports should be explored. The empirical evidence on terms of trade, however, does not indicate unambiguously that there has been a serious long-term deterioration in the developing countries' terms of trade. Any conclusions are very sensitive to the choice of base year and time period. Furthermore, it is questionable whether useful inferences about development can be drawn from trends in the terms of trade. Increased volume of exports or improved productivity can mitigate the effects of falling prices, and the LDCs' own domestic policies are important factors in determining whether or not export earnings contribute to equitable development.

In an effort to expand the foreign exchange earnings and employment generated by the primary commodity exports, developing countries are taking steps to increase their capacity to process their own agricultural and mineral commodities. In addition to directing public investment and credit into processing activities, many LDCs are adjusting their trade policies to encourage domestic processing. High export taxes or low export quotas on unprocessed raw materials are implemented as counter-measures to the developed countries' policies of escalating import duties as the level of processing increases. A balanced liberalization of primary commodities trade in both the developed countries and the LDCs would result in a more efficient pattern of investment.

*Commodity Agreements*

Commodity trade discussions and negotiations conducted under the auspices of UNCTAD's Integrated Program for Commodities (IPC) since late 1976, have been an important component of the North/South Dialogue. The IPC, agreed at UNCTAD IV in May 1976, called for discussions on individual commodities to be followed, where appropriate, by negotiations, and for talks on establishing a Common Fund to facilitate financing of the individual agreements.

In these talks, the UNCTAD Secretariat and the Group of 77 have pushed for the consideration of agreements in most of the 18 commodities on the IPC list and for a Common Fund as a central source of financing for buffer stocks. Consumer countries, especially the developed countries, are somewhat skeptical of the feasibility or desirability of agreements for many of the commodities on the list and have put greater emphasis in preparatory discussions on an assessment of the nature of commodity problems. On the Common Fund, the DCs believed that substantial financial economies could best be achieved by pooling the resources of commodity agreements themselves, rather than by endowing the Fund with substantial resources of its own. Both sides agreed that the most important goal of the IPC was stabilization of prices around levels that are equitable to consumers and remunerative to producers. However, views differed, in some cases drastically, on what those levels should be.

To date, a key result of individual commodity sessions has been an increased awareness of the benefits and limits of buffer stocking schemes as mechanisms to solve commodity problems. For some commodities, the financing requirements of a buffer stock that could achieve significant price stabilization are prohibitively expensive. For other commodities, buffer stocking is not a viable option because the real problem is not price instability but falling demand. Other commodities are simply not storable or not amenable to buffer stocking activities due to the existence of a wide variety of grades, the lack of freely determined prices, or other considerations.

Nevertheless, the IPC discussions on individual commodities have succeeded in defining clearly the problems in several commodity markets, and in some cases, negotiations on appropriate measures have been scheduled. In sugar, a national stocking scheme was negotiated successfully in the fall of 1977. In cocoa and natural rubber, negotiating conferences are scheduled for February and March 1979, and in tin a negotiating conference is scheduled for spring 1980. By mid 1980, there may be stocking schemes for five of the ten "core" commodities on the UNCTAD list, which would mark appreciable progress on commodity issues since the inception of the IPC.

The status of the respective negotiations for individual commodity agreements is as follows:

*Coffee*. The International Coffee Agreement (ICA) was effected in October 1976 when coffee prices were already high and rising. They reached historically high levels of $3.00 per pound in the spring of 1977, but have declined since to a level below $1.40. The ICA is a market-sharing arrangement relying on quotas to stabilize prices. Quotas are not presently in effect, but producers proposed to introduce quotas last September to avoid a further decrease of prices. Although consuming countries agreed to the desirability of some increase in the trigger prices at which export quotas would be introduced, agreement on the precise level of those increases was not achieved. It was agreed that the ICA Executive Board would convene to consider action if prices deviate significantly above or below their September-October 1978 average. If export quotas should come into effect, the United States would need implementing legislation to comply with its obligations to help enforce the quota restrictions.

*Sugar.* The International Sugar Agreement (ISA), a five-year arrangement to stabilize prices via nationally held reserve stocks and export quotas, was effected provisionally on January 1, 1978. Under terms of the Agreement an annual quota is set and allocated among individual exporting countries. Exporting members also are required to maintain a specified level of sugar stocks that can be used to defend the ceiling price. Carrying costs for these sugar stocks are to be financed through the collection of a surcharge on all sugar tonnage exported from or imported into signatory countries. IMF members in balance-of-payments difficulties can borrow from the IMF Buffer Stock Facility to finance the acquisition of their domestic stock requirements. The ISA has tended to strengthen sugar prices modestly, with international price levels increasing to close to an average of $.08 per pound in 1978 but still below the minimum price target of the ISA ($.11 per pound). The United States did not obtain Congressional ratification of the ISA in 1978. Congressional ratification of the agreement was postponed until the passage of a domestic sugar program. A number of bills were introduced in Congress to set up a new domestic sugar support program but none passed. The United States producers want an initial price support level of at least $.15 per pound which would be increased annually. The higher the level of the United States support price relative to the world price, the higher must be the level of duties applied to imported sugar. Foreign producers are concerned that an increase in American duties on imported sugar would have a dampening effect on international sugar prices and would be detrimental to their export earnings.

*Cocoa*. Renegotiation of the Third International Cocoa Agreement is scheduled for February 1979. The United States did not join the 1975 Agreement because it provided for an export quota regime. The United States favors the establishment of an international buffer stock which would be capable of defending price ceilings and floors thereby benefitting both producers and consumers, and tabled a proposal along these lines at the November 1978 preparatory conference. Cocoa prices fell during the first half of 1978, but remain high by historical standards. A new agreement would have to be based on a price trigger mechanism acceptable to both producers and consumers.

*Tin*. The United States is a member of the Fifth International Tin Agreement (ITA) which came into operation in 1976. The ITA seeks to smooth price fluctuations around the long-term market trend by using a buffer stock and quotas. The agreement provides for mandatory contributions by producers of 20,000 metric tons in metal or cash equivalent, and for voluntary contributions by consumers of up to an additional 20,000 metric tons. The Administration has pledged to make a voluntary contribution of approximately 5,000 metric tons. The authorizing legislation for this contribution became linked with other, more controversial legislation and the United States was, therefore, unable to contribute in 1978. However, it is hoped that such legislation will be forthcoming in 1979. Also during 1978 agreement was reached in the International Tin Council to increase the buffer stock price range.

*Copper*. The copper producers have suffered from low prices since 1975. After a small improvement in 1976, copper prices remained low through the first half of 1978, but recovered modestly late in the year to around $.70 per pound. The low prices have caused serious financial difficulties for copper producers. In the United States, delegations of mineral producing states unsuccessfully proposed that Congress grant authority to GSA to sell tin from the surplus stockpile and use the proceeds from that sale to buy copper, thus supporting copper prices and partially reducing the stockpile deficit. Copper consultations in UNCTAD have not developed a consensus on terms of international action to reduce price instability. The work done in UNCTAD so far has neither provided a sound basis for decisions on stock size or on price stabilization rules, nor has there been extensive cost-benefit analysis of various stabilization measures.

*Rubber.* Natural rubber is the first of the 18 commodities in UNCTAD's Integrated Program for Commodities not previously covered by an agreement to reach the actual negotiating stage. After two years of groundwork meetings, in which useful working relationships between producing and consuming countries were established, the First Session of the UN Conference on National Rubber convened in November-December 1978. Although it was not possible to reach agreement on all points, considerable progress was made on a number of key economic issues, including financing, stock size, and export controls.

A second session of the Conference scheduled for March 1979 will focus on these issues, pricing provisions and consultations on domestic policies.

*Other Commodity Negotiations.* Consultations and negotiations on other commodities important in international trade also are taking place. Two UNCTAD Conferences took place in 1978 and a third is scheduled for early 1979 to negotiate a new arrangement to replace the International Wheat Agreement of 1971, which consists of a Wheat Trade Convention and a Food Aid Convention. The Proposed new Food Aid Convention will substantially increase donor country commitments of annual flows of grains food aid. The new Wheat Trade Convention under negotiation would create an internationally coordinated system of national wheat reserves obligations to stabilize wheat prices in international markets and to enhance world food security.

Of special interest for this report is the issue of how developing countries can be assisted with their reserve stock obligations. The United States and other developed nations favor the use of existing bilateral and multilateral assistance programs to help the poorest nations meet their obligations. Developing countries urge the inclusion of provisions for new assistance programs (e.g., a stock financing fund) in the Convention, but have recently shown a willingness to compromise on this issue.

*The Common Fund*

Central to the developing countries' proposals for a reformed North/South trading relationship is a Common Fund that would facilitate price stabilization for key LDC commodity exports. At the Conference on International Economic Cooperation in June 1977, the United States agreed to work toward the establishment of a Common Fund, and at the Bonn Economic Summit the leaders of the developed countries promised "to pursue actively the negotiations on a Common Fund to a successful conclusion." The Second Session of the Common Fund Negotiating Conference reconvened in November 1978 in Geneva. The developed countries made a major effort in these negotiations to reach agreement by accepting an element of direct government contributions to the Fund and a possible role for a "second window" in the Fund to finance non-buffer stocking measures. The 1978 session ended on a more positive note than the previous year's Conference, which was suspended at LDC request, but major issues remain unresolved. The next session of the Conference is scheduled for March 1979.

Negotiations between the developed and developing countries have reflected differences in each groups' respective conceptions of the appropriate objectives of the Common Fund. The developing countries have wanted a fund that could effectively subsidize commodity agreements through its own resources and engage in country-specific commodity projects through its second window. They have also pressed for close adherence to the principle of equality in voting which would give them voting control. The major developed countries have supported a Common Fund that would pool the financial resources of individual commodity agreements but would not interfere in the operations of the agreements. The developed countries also have held that the Fund should not duplicate the activities of the development banks and that its voting structure should recognize countries' respective economic interests. These different conceptions of the scope and operations of the Common Fund have been implicit in some of the differences with developing countries on key financial magnitudes.

*Export Earnings Stabilization Schemes*

An alternative to commodity price stabilization as a means of addressing the commodity instability problem is to directly stabilize producing countries' export earnings. At the present time there are three compensatory financing facilities that assist countries suffering export earnings shortfalls: the IMF's Compensatory Financing Facility, the European Community's STABEX and the Arab Monetary Fund.

The IMF's facility, by far the largest, provides financial assistance to any IMF member experiencing balance-of-payments problems due to temporary shortfalls in export earnings. Financing under the Facility is additional to that extended by the Fund under its other regulations or special facilities; therefore, compensatory drawings do not affect the member's access to other IMF financing. The Facility was liberalized significantly in December, 1975. In the aftermath of the 1975 recession, 45 countries drew a record amount of SDR 2.3 billion during calendar year 1976. During the following 16 months, drawings fell to SDR 0.5 billion, but declining prices in several commodities suggest that drawings may rise again. The IMF will be reviewing the CFF in 1979 to determine whether any revisions in its operations are warranted.

STABEX is a facility administered by the European Community under the 1975 Lome Convention for the benefit of its associated members. STABEX provides financing for individual commodity earnings shortfalls in trade with EEC members rather than for total export earnings shortfalls as in the case of the IMF Compensatory Financing Facility. In 1976 and 1977, the first two years of STABEX operations, twenty-two countries received a total amount of SDR 110 million, two-thirds of it as grants to the least developed countries and the remainder as interest-free loans.

The Arab Monetary Fund entered into force in February 1977. It is composed of twenty Arab States and is able to provide financial assistance to members experiencing balance-of-payments difficulties as a result of a decrease in their receipts from exports of goods and services or a large increase in the price of their imports of agriculture products following a poor harvest. The operational procedures still are being developed, and member countries are expected to borrow first from the IMF Compensatory Financing Facility.

At the 1978 IMF-IBRD Annual Meetings, West Germany proposed that consideration be given to the creation of a global STABEX scheme to complement the IMF's Compensatory Financing Facility. The joint IMF-IBRD Development Committee is currently studying the German proposal as well as other proposals for the stabilization of export earnings. A major concern of the Committee is whether the existing facilities are adequate.

*Manufactured Products Trade*

The expansion of manufactured goods exports is being given high priority within the development strategies of many developing countries. In addition to the previously described benefits to be derived from LDC trade growth, increased exports of manufactured goods help to dampen the wide fluctuations in foreign exchange earnings that plague countries heavily dependent upon primary commodity exports. The opportunity to export manufactured goods also enables industrializing countries to establish production facilities on a more efficient scale than if output could be sold only in the domestic market. For low-income developing countries in which domestic demand for manufactures is very limited, exports may represent the most realistic opportunity for expanding non-agricultural employment. In such cases, exports would constitute an important ingredient in a Basic Human Needs approach to development.

The patterns of LDC export development in manufactures are evident from the data on exports to the United States. Table 18 reveals that a handful of countries dominate LDC trade in manufactures. The Big Five in this regard are China-Taiwan, Hong Kong, South Korea, Mexico, and Brazil. Labor is abundant yet quite skilled compared to that in poorer LDCs, and infrastructure is well developed. Accordingly, these middle-income countries can produce a range of light and intermediate manufactured goods of a quality and price that is competitive with developed country products. In order to direct the resources of local entrepreneurs and foreign investors into areas of their comparative advantage, some of these countries have established a variety of incentives and, at least as important, have dismantled the disincentives to export that were the legacy of an earlier development emphasis on import substitution.

The product mix of LDC manufactured goods exports also is rather concentrated. More than half of the LDCs' manufactured exports to the United States consist of clothing, electrical machinery, footwear and consumer electronics such as television sets, radios and stereo equipment. Because the products of LDCs are concentrated in certain product lines, they have evoked a high degree of public concern in the developed countries.

*Impact and Adjustment*

In the United States, the aggregate level of imports from developing countries is not the problem. Traditionally the United States has recorded trade surpluses with the developing countries as a group, and studies

**TABLE 18**

**U.S. Imports of LDC Manufactures**
1977

($ Million)

| Product | China-Taiwan | Hong Kong | South Korea | Mexico | Brazil | Total LDCs | Big Five Share |
|---|---|---|---|---|---|---|---|
| Chemicals | 32 | 3 | 23 | 114 | 27 | 552 | 36% |
| Textile Yarn & Fabrics | 72 | 129 | 44 | 64 | 51 | 736 | 49% |
| Iron & Steel | 21 | 0 | 161 | 68 | 58 | 484 | 64% |
| Metal Manufactures | 145 | 47 | 137 | 73 | 10 | 458 | 98% |
| Industrial Machinery | 77 | 10 | 10 | 82 | 18 | 228 | 86% |
| Office Machines | 37 | 89 | 24 | 43 | 13 | 259 | 89% |
| Electrical Machinery | 477 | 298 | 346 | 643 | 37 | 2,717 | 66% |
| Road Motor Vehicle & Parts | 6 | 1 | 3 | 209 | 113 | 349 | 96% |
| Clothing | 709 | 1,065 | 695 | 169 | 21 | 3,276 | 97% |
| Footwear | 445 | 18 | 330 | 30 | 122 | 1,004 | 94% |
| TV, Radios, Phonographs | 402 | 222 | 206 | 102 | 80 | 1,088 | 93% |
| Miscellaneous Consumer Goods | 581 | 645 | 401 | 157 | 30 | 2,061 | 88% |
| Other Manufactures | 481 | 336 | 424 | 473 | 97 | 2,707 | 67% |
| Total Manufactures | 3,485 | 2,863 | 2,804 | 2,227 | 667 | 15,919 | 76% |

of import-competing industries in the United States and West Germany indicate that job losses attributable to imports are insignificant when compared with the adjustments that our labor force undergoes in response to technological change and changes in domestic demand. There is a serious difficulty, however, in specific industries that face competition from developing country producers. Typically these are industries (or firms within industries) whose production processes are labor-intensive and involve a stable technology. These are precisely the types of production processes in which developing countries have a comparative advantage under a system of free trade. They also are industries in which the difficulty of developing effective trade adjustment policies in the developed countries is greatest. In the United States, the workforce of many of these industries are composed primarily of low-skilled workers, women, and older workers, who have very limited job mobility.

If the United States and other developed countries are unable to deal effectively with the adjustment burdens imposed on individual firms and workers as a result of manufactured goods imports from LDCs, the developing countries' use of trade in support of their development efforts will be stymied. In its 1978 *World Development Report*, the IBRD estimated that a reduction of one percentage point in the projected annual growth rate of LDC exports during 1975-85 would result in a drop of a half a percentage point in the rate of growth of real GDP in the developing countries during the same period. The low wages and poor working conditions of many LDC workers, which often are cited as evidence of the need for heightened United States import barriers, are more likely to be improved by an expansion of LDC trade than by a contraction. Workers faced with sluggish economic growth in their own countries may seek to deal with their plight by migrating illegally to the United States, imposing burdens and dislocations greater than those caused by increased imports.

The trading experience of the more advanced developing countries during the next few years will affect the tone of development strategies in the 1980s. If developed country policies prevent nations in East

Asia and Latin America from using trade to promote industrialization, less advanced countries in Africa and elsewhere in Asia are likely to question the appropriateness of the market-oriented economic policies that we counsel in our development assistance programs. The reception given the advanced developing countries by the trading powers in the developed world will be an important factor also in the Third World's choice between participation in existing international economic systems and insistence upon a New International Economic Order. If the LDCs are prevented from expanding their exports in accordance with free market competition, they will become ardent spokesmen for a radical restructuring of the conduct of world trade.

Just as the developed countries have a responsibility to accommodate the developing countries in the world trading system, the LDCs must assume obligations commensurate with their level of competitiveness. Incentives that were needed to launch export activities during their infancy should not become a permanent part of a country's trade regime. Also, improvements in a country's export capability provide the opportunity and responsibility to dismantle progressively its own import barriers. This liberalization will fortify the vitality of the LDC's trading sector by providing domestic producers with importable inputs at world prices and by challenging import competing industries to achieve international levels of efficiency. Another important responsibility of each participant in the international trading system is to maintain its exchange rate at a level that is consistent with the relative strength of the country's external sector. Market forces should not be suppressed for the purpose of maintaining an unfair advantage over one's trading partners and competitors.

Finally, sharing the international trade adjustment burden and providing an equitable distribution of the development benefits from increased LDC trade require that the workers in the expanding export industries receive a fair share of the increasing revenue. Rising wages will enable these workers to improve the standard of living of their families and will undercut the allegations of protectionists in other countries that LDC export success is based upon the exploitation of their labor force.

*Trade Assistance*

The United States currently provides a continuum of trade assistance to developing countries that are pursuing outward-looking policies. Section 807 of the U.S. Tariff Schedule provides an opportunity for export diversification to countries in industries which lack the manufacturing skills to go beyond final assembly of imported components. In 1977, the developing countries exported $3 billion of goods to the U.S. under this tariff classification. Mexico is the major LDC beneficiary of this trade, accounting for nearly 37 percent of the LDCs' Section 807 trade; another 46 percent is provided by China-Taiwan, Singapore, Hong Kong, Korea and Malaysia.

In cases in which an LDC has the capability to engage in a greater degree of fabrication or processing, the duty-free treatment provided by the U.S. version of the Generalized System of Preferences (GSP) provides the trade policy support for LDC trade expansion. Due to the product coverage of the U.S. plan, GSP is primarily an instrument for support of LDC trade development in manufactured goods. During 1977 nearly $4 billion of LDC products entered the U.S. under GSP, approximately two-thirds of which was supplied by China-Taiwan, Korea, Hong Kong, Mexico and Brazil. These five countries also experienced the brunt of the competitive need exclusion, which denies duty-free treatment for otherwise GSP-eligible goods that are from countries that have already demonstrated their ability to export to the United States.[a] The competitive need exclusion is a logical capstone to a trade policy that provides temporary assistance to LDCs. We have only three years' experience with the competitive need formula, but in that period the formula has served to exclude growing shares of the five principal GSP beneficiaries' exports from duty-free treatment. The President will be presenting to Congress a full report on the effectiveness of the GSP program in early 1980.

Probably of greater importance to the LDCs than these trading preferences is the relatively open market maintained by the U.S. In addition to the goods accorded duty-free treatment under GSP, more than $10 billion

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[a] The competitive need formula denies the GSP duty-free treatment to a given developing country in each GSP eligible product in which the LDC's exports amount to 50% of U.S. imports or a share of U.S. GNP equivalent to $33.4 million in 1977.

in LDC exports entered the United States duty-free in 1977 under the normal provisions of the U.S. tariff code. Among dutiable imports from the LDCs, the value of collected duties amounted to less than 5 percent of the value of imports. Further benefits will be gained by the LDCs from the Most Favored Nation liberalization that will result from the Multilateral Trade Negotiations. These benefits will affect a wider range of products than presently is covered by GSP and offer more security to participating LDCs than is provided by GSP.

*Multilateral Trade Negotiations*

The Multilateral Trade Negotiations (MTN), which were launched by the Tokyo Declaration in September 1973, entered a new phase with the presentation of detailed tariff-cutting offers by the major participants in January 1978. Very substantial progress was made with respect to both tariff liberalization and reform of the codes to regulate the use of non-tariff measures affecting trade. Although the negotiations were not concluded by the December 1978 target date that was announced at the Bonn Economic Summit, negotiators appear close enough to a final settlement to warrant the expectation of a completed MTN package in early 1979.

The United States has sought several goals vis-a-vis the LDCs in the MTN. The specific tariff concessions that are being negotiated seek to balance the trading interests of U.S. producers, many of whom have complaints with LDCs' import restrictions, with the Tokyo Declaration commitment that developed countries should seek concessions from developing countries that are not incompatible with the latters' stages of development, trade and finance. Some of the developing countries have felt that the United States insisted upon burdensome concessions from them.

Arrangements concerning the trading codes will have at least as great an impact as the tariff concessions on the future profile of trade with the developing countries. Two areas of particular concern to the LDCs have been safeguards and subsidy practices. The phenomenon of extremely rapid growth of exports from one or two LDCs in a narrow range of products has raised a question in the minds of policymakers in some developed countries as to the advisability of maintaining the current requirement that safeguard actions be imposed on a

Most Favored Nation basis. The United States has sought a workable compromise between the concerns of the developed countries and the LDCs' fears that selective safeguards would stifle LDC export drives at their first sign of success. In the subsidy code the United States has sought to arrange a phase-out framework that can be applied to advanced LDCs that still use export subsidies. The United States also has initiated an international consideration of which internal subsidy practices of both developed countries and developing countries must be monitored to avoid unfavorable impacts on the trade interest of other countries.

Within the MTN, a major goal of the United States and the other developed countries has been to obtain LDC cooperation in establishing an approach for selectively increasing the GATT obligations applicable to developing countries. The challenge has been to develop a system of "graduation" that is both cognizant of an individual LDC's level of development in its trade sector and sensitive to the concerns of developed countries whose domestic industries must compete with expanding LDC exports. Although the graduation issue has been explored at some length within the MTN, and some of the rough outlines of an approach have emerged from those negotiations, resolution of the issue can come only through a series of specific compromises during the next decade. As more countries join the ranks of the successful LDC exporters, graduation will assume immediate importance to more countries. Also, as LDCs expand their export capabilities beyond the most popular exportables of the 1970s, the question of LDC compliance with all GATT obligations will become relevant to more domestic interests in the United States.

*North/South Dialogue: Trade*

As the principal mechanism for transferring resources between developed and developing economies, trade lies at the heart of the North/South dialogue. Not only are the LDCs urging the developed countries to lower tariff levels and to relax quantitative restrictions, but they also are raising fundamental questions about the system by which international trade is conducted. There is substantial skepticism on the part of some developing countries that the developed countries' version of a unified international economy is the most favorable environment for LDC development. There also are questions of the developed countries' fidelity to a market-oriented system when market forces threaten domestic interests in the developed countries.

For their part, the developed countries are concerned that much of the LDC's rhetoric about reform of the trading system is a thinly disguised attempt to justify two different sets of rules. In the Tokyo Declaration and elsewhere, the developed countries have accepted the notion that some relaxation of rules and some market intervention on behalf of developing countries may be made, but only to the extent that is warranted by the specific trade, development and financial situation of the individual country and only with the understanding that the goal remains one of a unified system.

The North/South dialogue continued in this intellectual setting in 1978 and was pursued concretely in the Multilateral Trade Negotiations and in the Common Fund Negotiating Conference. The course of these negotiations has revealed that a successful resolution of the dialogue does not depend solely upon adequate "political will" on the part of one side or another. The parties' substantive economic and social interests must be reflected in any agreements in the trade field. The prospect for 1979 is encouraging; the completion of the MTN seems to be a reasonable expectation, and negotiations on the Common Fund and several individual commodity arrangements will be resumed at meaningful levels of specificity. The major event in the North/South schedule for 1979 is the UNCTAD V Meeting. The challenge of that meeting will be whether it serves as a positive exploration of pending international economic issues or simply as a forum for the rhetoric of developed and developing countries.

## B. Financial Issues

### *Private Flows*

The economic growth of LDCs in part hinges on their ability to augment domestic resources through the inflow of foreign capital. On a net basis, Official Development Assistance accounts for only about 25 percent of this inflow. The remainder is acquired through borrowing from private sources, private direct foreign investment, and non-concessional lending from official sources. This borrowing is primarily intended to provide long term financing to supplement domestic savings. However, some of it, especially from commercial bank credits, has also been used to address temporary balance of payments disequilibria.

*Direct Private Investment*

LDCs receive significant amounts of private direct foreign investment. In 1976 and 1977, for example, LDCs received direct investment flows from the United States which accounted for about 45 percent of total U.S. direct foreign investment in those years. The total accumulated U.S. investment in the LDCs now equals about one-fourth of the total stock of U.S. direct foreign investment. To encourage investment in LDCs, the United States has supported the programs of the Overseas Private Investment Corporation, the International Finance Corporation and other institutions, particularly in energy and natural resource sectors.

The technology transfer that accompanies private direct foreign investment is important to LDC productivity growth. However, LDCs, while in principle interested in obtaining the technology to which direct investment gives them access, are often concerned about the associated costs. Some of the problems regarding transnational corporations' (TNCs) functions, including technology transfer, are receiving attention in international fora, particularly within the United Nations and the Organization for Economic Cooperation and Development. Work is proceeding on determining the precise contents of a code of conduct for the transfer of technology and a code for the TNCs. The United States supports the efforts and is participating in the international working groups that are attempting to design the various codes. The United States has stressed that it is necessary to establish codes of conduct that would promote LDC development as well as protect the property rights of the owners of intellectual property and industrial technology.

While direct foreign investment remains an important source of finance for resource transfers to LDCs, some direct investment is being replaced by bank lending in some non-fuel mineral exporting middle-income LDCs. In its 1976 report, *Prospects for Developing Countries to 1985,* the World Bank noted that for large projects syndicated bank loans are becoming increasingly common, replacing, at least in part, equity investment. The principal transformation has occurred in mineral exploitation, and it was due to two factors: first, mineral and associated processing projects were becoming larger, thereby requiring more extensive capital outlays; and second, investors wanted to reduce their equity exposure as LDCs began to increase the share of profits (returns to equity) that they wished to capture. Returns to equity are regarded as profits, and therefore taxable. But interest on loans are a cost and therefore deductible from taxable income. In addition, countries which nationalized their mineral resources were interested in loans, not in equity participation. Mineral-rich countries thus became heavy borrowers in private markets, where previously they had accepted equity capital. But whereas returns to equity capital fluctuate with changes in mineral prices, service obligations on loans are fixed, and this can create liquidity problems for LDCs in price downswings.

More recently, similar trends have become evident in investment in manufacturing. The transfer of technical knowledge, management and marketing skills through direct investment is increasingly taking the form of management and licensing agreements while the capital flows are being channeled through financial institutions.

Net direct foreign investment in all LDCs declined from $10.5 billion in 1975 to $7.8 billion in 1976 and then rose to $10.0 billion in 1977. At the same time, total private flows climbed, and consequently direct foreign investment declined as a proportion of total private lending and investment flows.

*Private Capital Flows*

A trend toward expanded LDC borrowing from private sources began to emerge in the late 1960's. This coincided with a period of healthy growth for LDCs as a group. Real output grew by an average of 6.3 percent per year from 1967 through 1973 when, in that year, it rose by 7.3 percent. Current account balances were manageable; in 1973 the combined LDC current account deficit was $11 billion. During this period, LDCs increased their annual borrowing from private sources from $3.0 billion in 1967 to $7.8 billion in 1973, an average annual increase of eighteen percent, in nominal terms, over the period. From 1967 to 1973, LDC borrowing from private sources rose from 42 to 50 percent of their total borrowing.

The shift toward private lenders in large measure was due to the increased willingness of banks to make loans to LDCs, particularly to governments of upper and middle income countries. This resulted in part from the fact that in the early 1970's, lenders faced declining corporate demand for investment finance. The larger banks, wanting to maintain high levels of overseas earnings and smaller regional banks, seeking to enter into overseas lending, found ready customers in developing countries. Due to high liquidity positions, banks were prepared to offer LDCs large loans with longer maturities and at lower interest rates than for corporate customers. Many LDC governments found the absence of conditionality attractive and consequently were willing to meet the obligations imposed by borrowing on commercial terms.

The sustained economic growth and generally sound export earning and current account performances of most LDCs during 1967 through 1973 were interrupted abruptly and severely by unprecedented global economic disturbances which began in 1973 and lasted for several years. During these years, global recession and inflation, sparked by a rapid and dramatic upsurge in oil prices, was transmitted to LDCs.

The IMF estimates that non-OPEC LDCs borrowed $5.5 billion net from private banks in 1974 and then increased such borrowing to $7.7 billion in 1975. The borrowing assisted the LDC group at least to maintain the volume of its imports during 1974 and 1975. This played some role in preventing the growth of the LDCs as a group from falling below 4.5 percent.

The combined non-OPEC LDC current account deficit shot up to $28 billion in 1974, and then to $34 billion in 1975. According to the IMF, overall private lending grew to $12 billion in 1974, and then to $14 billion in 1975. This borrowing was primarily motivated by the desire of oil-importing LDCs to deal with the shorter-term balance of payments effect of the oil price increase and recession in the West.

The non-OPEC LDCs, as a group, began to recover from the global economic shock during 1976 and 1977 when their combined deficit fell to $26 billion and $23 billion respectively, and their aggregate growth rate averaged 4.9 percent. Their current account deficit for 1978 is put at $27 billion. They borrowed $16.4 billion from private sources in 1976 and $18 billion in 1977. Private banks continued to play a major role in this financing. The group borrowed $10 and $9 billion from them in 1976 and 1977 respectively, and such borrowing for 1978 is put at some $10 billion.

The major source of supply of funds for the international banking market are the surplus balance of payments areas (such as Germany, Japan, Switzerland and the OPEC countries) and the United States. In terms of supply, the oil exporting countries deposited $29 billion with foreign banks in 1974, but the size of their gross deposit flows declined to $10 billion annually in 1976 and 1977 due to some decline in the magnitude of their combined balance of payments surpluses and use of their funds for long term investments.

Eurobond and Eurocurrency markets are the primary institutional mechanisms by which surplus funds are channelled to countries in need of funds. Insofar as the LDC group is concerned, in 1977 eight borrowers accounted for about 80 percent of all syndicated bank lending to non-oil exporting developing countries (Mexico, Brazil, South Korea, Morocco, the Philippines, Chile, Taiwan and Hong Kong). Flows from private sources have become an important component of LDC financing. Middle and upper income LDCs especially have come to rely upon private sources for a major portion of their medium to longer term borrowing.

*Debt Accumulation and Debt Problems*

The rapid rise in developing countries' international indebtedness, especially in the aftermath of the oil price increases in 1973 and 1974, and the subsequent slowdown in economic activity in industrialized countries, gave rise to serious concerns about their ability to service this debt without sharply compromising their development, and elevated the debt issue to one of major importance in the North/South dialogue. Between 1973 and 1976, total LDC official and officially-guaranteed debt increased from $90 billion to $161 billion.[a] These figures do not include private non-guaranteed credits, which at the end of 1976 are estimated at $45 billion, nor do they take account of debt outstanding with a maturity of less than a year. Most of the increases in LDC debt that took place between 1973 and 1976 was obtained from private sources, especially from international banks, and is concentrated in a small number of middle to higher income countries. By the end of 1976, the proportion of total LDC official and officially-guaranteed debt outstanding from private sources on non-concessional terms stood at 45 percent, compared with 37 percent at the end of 1973.

The overall impact of the increase in required debt service, from $11.7 billion to $18.2 billion, that accom-

[a] Refers to the data for 96 developing countries included in the World Bank Debtor Reporting (DRS).

panied the sharp increase in LDCs public and publicly-guaranteed debt outstanding between 1973 and 1976, was more than offset by the growth that took place over the period in their exports and other non-factor foreign exchange earning transactions. As a result, debt service payments relative to export earnings declined from 9.2 percent to 8.0 percent. Excluding the nine major oil exporters, the debt service ratio on the LDC public and publicly-guaranteed debt declined from 10.9 percent to 10.0 percent. These averages, however, are associated with considerable degrees of variation with regard to the situations of individual LDCs, and do not take account of the servicing of private non-guaranteed debt, which tends to be high for the more developed LDCs.

Partial returns for 1977 indicate that LDC public and publicly-guaranteed debt outstanding advanced to around $198 billion, with the growth in the external debt outstanding of the nine capital-deficit oil-exporting countries expanding at a substantially faster pace than that of the non-oil developing countries. The debt service ratio for non-oil LDCs rose to around 11.5 percent. Private non-guaranteed debt to entities in LDCs is estimated to have increased to about $52 billion.

Despite the sharp increase in LDCs' debt outstanding in recent years, they have continued on the whole to register good debt service payment performances. To be sure, in 1978 the United States participated in the rescheduling of the debt of two of the four countries that required such action, but that experience was not significantly different from the 2-3 annual average of reschedulings that have characterized the past 15 years. The continued good debt service by LDCs over the 1973-78 period would seem to lend support to a conclusion that earlier expressed concerns were somewhat overdrawn and, given favorable world economic conditions, that in the aggregate LDCs do not face a generalized debt problem requiring generalized relief measures. On the other hand, it is important to note that individual LDCs, especially those with a high proportion of private debt, may from time to time encounter short- and medium-term balance of payment difficulties related to the level and maturity structure of their debts. Some LDCs, particularly the relatively least developed, have and may continue to face a severe net resource transfer problem, when measured against their ability to mount and maintain development programs that are sufficient to meet the basic human needs of their people. This was one of the main issues of the March 1978 UNCTAD Trade and Development Board Ministerial meeting.

*March TDB*

After inconclusive discussions at CIEC, and in other international fora thereafter, the developed and developing countries were able at the UNCTAD Ministerial meeting, in March 1978, to reach a basic understanding that may serve to defuse the debt issue in the North/South dialogue. At that meeting the developed countries agreed "to seek to adopt measures to adjust terms of past ODA or other equivalent measures as a means of improving the net ODA flows". This concept of so-called retroactive terms adjustment (RTA) typically involves converting past ODA loans into grants, and as such is equivalent to debt relief. The beneficiaries of such action were left rather vague through the use of the phrase "poorer developing countries and particularly the least developed". Several of the donors explicitly stated their intentions to limit their actions to the least developed group. In addition, it was agreed that each donor country would "determine the distribution and the net flows involved within the context of its own aid policy". This implies that the beneficiaries would be chosen by each developed country.

At the same meeting the LDCs (a) *de facto* abandoned their demands for generalized debt relief in exchange for action by the developed countries on retroactive terms adjustment or equivalent measures to increase net flows to poorer LDCs, (b) agreed with the developed countries on four basic concepts for use by debt experts in seeking to identify "features" to guide international action for countries experiencing debt and balance of payments problems. The agreed upon concepts are presented below.

1. International consideration of the debt problem of a developing country would be initiated only at the specific request of the debtor country concerned.

2. Such consideration would take place in an appropriate multilateral framework consisting of the interested parties, and with the help as appropriate of relevant international institutions to ensure timely action, taking into account the nature of the problem which may vary from acute balance-of-payments difficulties requiring

immediate action to longer-term situations relating to structural, financial and transfer of resources problems requiring appropriate longer-term measures.

3. Upon agreement by the interested parties, international action would take due account of the country's economic and financial situation and performance, of its development prospects and capabilities, of external factors, and would bear in mind internationally agreed objectives for the development of LDCs.

4. Debt reorganization would protect the interests of both debtors and creditors equitably in the context of international economic co-operation.

*Retroactive Terms Adjustment (RTA)*

The RTA portion of the UNCTAD TDB March Ministerial accord for the most part represents a reaffirmation of the position generally taken by the developed countries at CIEC—to undertake to increase the net flow of resources to the poorer countries. The agreement, by encompassing the application of equivalent measures, is sufficiently broadly framed to permit each country operating within its respective institutional and legislative setting to contribute to the attainment of the objective. The Congress in late 1978 enacted legislation that provided the President with authority to undertake, on a case-by-case basis, the retroactive adjustment of terms of past AID and PL-480 loans. In the case of both types of loans the authority is restricted to loans to the relatively least developed countries (LLDCs).

In respect to past foreign assistance loans the President may allow the LLDCs to place the dollar equivalent of repayments due on such loans into local currency accounts. The local currency in these accounts can be used for mutually agreed-upon development activities. Where it is determined that a respective LLDC is unable to utilize for development purposes the full amount of local currency so generated, the President is authorized to waive the interest portion of the payment. This authority does not become effective until FY 1980, and the amount of adjustment undertaken in any fiscal year must clear the Congressional authorization-appropriations process. AID has about $500 million in loans outstanding in the LLDCs and the repayment requirements on those loans will be in the range of $20-$25 million over the next few years.

With regard to past PL-480 loans, the President, effective in FY 1979, may allow an LLDC to deposit the local currency equivalent of the f.o.b. dollar value of commodities delivered under a Title III agreement into a special account. Disbursements from this account in support of Title III programs in any fiscal year in excess of the annual repayment obligations under the Title III agreement can be considered as payments with respect to the annual repayments obligations of that country for that fiscal year on other outstanding PL-480 debt. The future impact of this program will depend on the pace and magnitude of commodity shipments under Title III and the rate at which deposits of local currency so generated can be disbursed. Over the next few years the impact will probably be small.

Other major donors have also moved rapidly in contributing to the objective of the RTA portion of the Geneva resolution. On the basis of incomplete information it appears that the total debt owed to donor countries by the affected LDCs that might be "adjusted" is on the order of $2.5-$3.0 billion. Annual debt service on this debt involves approximately $60-$70 million, not an insignificant amount for these low income countries.

*LDCs: The International Monetary Fund*

As pointed out above, the LDCs have borrowed substantial amounts to finance their balance of payments deficits from private capital markets in the last few years. At the same time, the IMF has continued to play an important role as the primary source of official balance of payments financing for developing countries. The IMF responded dramatically to the increased need for balance of payments financing resulting from the global economic disturbances of the mid-1970's. For example, from 1970 through 1973 there were 24 incidents where non-oil exporting developing countries were net users of Fund resources in financing balance of payments deficits. During the period 1974 through 1976 this number jumped to 69. From 1970 through 1973, LDCs made 13 net purchases in the credit tranches and they used other Fund facilities 11 times. But during the period 1974 through 1976, credit tranches were used 30 times by LDCs while there were 39 incidents where they used other facilities.

The Fund in 1975 liberalized the use of the *Compensatory Financing Facility* (CFF) which provides balance of payments financing to countries suffering temporary shortfalls in their export earnings due to circumstances beyond their control. Moreover, the *Extended Facility* provides medium-term balance of payments financing to member countries experiencing balance of payments difficulties for longer periods and in larger amounts than those available under the normal credit tranches.

Most recently, with support of the United States, another facility, the *Supplementary Financing Facility* (SFF) is being established in the IMF. It will make available to the IMF an additional $11 billion to use in providing balance of payments financing to member countries experiencing particularly severe balance of payments problems. In order to borrow from this Facility, a member's balance of payments financing needs must be greater than its access to regular IMF resources and justify a repayment period longer than would apply to regular resources. The member must supply the IMF with a satisfactory economic program with which to solve its balance of payments problem.

*Rescheduling of Debt*

In addition to the increased resources available through the Fund, some LDCs have been active in attempting to obtain more direct assistance from creditor countries for overcoming short- and medium-term balance of payments situations. Underlying the concepts agreed to at the March TDB Ministerial meeting was the explicit recognition of the existence of balance of payments situations other than those in circumstances of imminent default in which debt reorganization might be considered an acceptable and appropriate instrument to achieve increased resource flows. The United States is sympathetic to the need for increasing the net flow of resources to the developing countries, especially the poorer LDCs, to permit them to pursue their development objectives. At the same time, balance of payments problems for the most part should be dealt with through the adoption of appropriate domestic and external economic policies, developed in cooperation with the IMF where feasible, to eliminate the need for debt relief. The interests of the poorer countries would be better served by bringing about increases in the amount and quality of new assistance, rather than through the substitution of debt relief as a regular means of increasing net resource flows. Although debt relief is untied, quick disbursing, and often highly concessional, there are problems associated with the use of debt relief as a resource transfer mechanism, even on a case-by-case basis, that more than counter-balance its advantages. The United States, in marked contrast to many other aid providing countries, provides debt relief outside the Congressional authorization-appropriation process. As a consequence debt relief tends to be more additional to other aid funding. Also, the regular use of this mechanism would unnecessarily complicate equitable burden sharing among donors. Finally, past borrowing is not an efficient indicator of present needs.

Thus, to the extent that it can be done, the United States is careful to distinguish between: (a) problems where net resource transfers are inadequate to support overall rates of economic growth consistent with internationally determined development objectives, and (b) problems associated with a country's inability to meet its external debt-servicing obligations. This distinction allows the United States to use its aid on activities that directly help the poor, rather than in support of general balance of payment situations, and is more consistent with Congressional sentiment and public support.

Against this background, the United States in recent years has limited its participation in reschedulings to those that have taken place within a creditor club framework. Traditionally, creditor clubs, as might be expected, have focused their attention on short term relief measures combined with the adoption and implementation of domestic and external policies aimed at enabling the resumption of repayments on schedule at the earliest possible time. Some countries, especially those that for various reasons have had sharp growth in their private debt, may well over the next few years encounter maturity structure problems that may impinge on their capacity in the short-to-medium term to achieve their development objectives. In some cases, this will represent the effects of their efforts to bring about a more gradual adjustment process in response to developments that took place in the international economy in the 1973-74 period against the background of continuing slow growth in the developed industrial countries. From time to time these countries may encounter severe balance of payment problems.

The primary source of assistance for countries facing short- and medium-term balance of payment gaps must continue to be the IMF. It is thus important that the IMF have adequate facilities to deal with individual balance of payment problems as they arise and prevent them from lingering on or spreading. In addition, the presence of the IMF in these instances will hopefully contribute to the continued confidence of the private banking community in LDC lending.

# CHAPTER XI

## Conclusions: Issues for Coming Years

The DCC annual report, as mandated by Congress, is essentially retrospective. It has been impossible, however, to talk about last year's issues and activities without dealing extensively with those of next year and the years that follow.

Thus, *Development Issues 1978*, like its predecessors, is replete with references to specific problems which remain before us. Each mention of progress in an area and each new grasp of an issue implies still other new perceptions as our experience increases.

These problems and issues may be aggregated into a few broad concepts—new challenges—which will be occupying our attention in 1979, 1980, and beyond.

These new challenges do not divide neatly into discrete action packages. They must be dealt with cumulatively, by addressing component issues in the DCC, by improving or perhaps redirecting programs, by making better operational decisions. None can be dealt with in a short fixed time frame, and we may never know if we dealt with them adequately. If we do not, however, it may be painfully apparent to the generations that will follow us.

It is within the framework of these challenges that we will be applying our policy attention and analytical efforts in coming years.

### *Flexibility of Response*

In foreign assistance, as in other areas of foreign policy, 1978 has underscored the paradoxical consistency of humility and strength. We have come increasingly to understand that we cannot prescribe blanket remedies or impose external solutions for the problems of the developing world. Our rigid formulas and categories provide useful guidelines, but cannot replace specific pragmatic analysis of country needs as an adequate basis for real world programming decisions. We must be prepared to modify the assistance techniques available to us, and design new ones if it becomes clear that we cannot effectively meet the problems we face in carrying out our own policies and in assisting the developing countries. Basic human needs, human rights, and other underlying tenets of our foreign policy and our assistance philosophy can accommodate to changing needs.

Our thinking on basic human needs evolved considerably and significantly. It will continue to do so. Similar challenges may lie before us in:

—designing new measures of effectiveness and reviewing country priorities;
—speeding the implementation of our bilateral programs;
—encouraging the multilateral banks to participate more in program or sector activities;
—insuring that security-related assistance programs have a lasting developmental impact;
—proposing new means of supporting countries in financial difficulties before crisis forces them to undertake draconian remedial measures;
—formulating international economic policy to improve the opportunities of developing countries in an open global economy.

Because design and implementation of a policy or program lags behind perception of the need for it, we are to an extent always dealing with yesterday's problems. To avoid this we must constantly be looking ahead for new means of addressing the issues of tomorrow.

*Disaggregating Global Problems*

This report has underscored the increasingly global nature of many of the problems which face both the developed and developing countries. It abounds with specific examples.

By their nature, however, these global problems are almost impossible to deal with "globally." The problem of deforestation threatens the world environment, but it must ultimately be dealt with by individual countries and individual communities. Pollution of the atmosphere does not stop at national boundaries, but to deal with it in the developing countries or elsewhere we must work with individual governments to implement programs which will modify the behavior of individual citizens. We may subscribe to the goal of eliminating poverty, or malnutrition, or one disease or another by some target date, but we must also decide how we accomplish this concretely when we consult with a given nation about our assistance programs.

The task of disaggregating global problems into meaningful elements which can be acted upon and setting priorities between these elements to assure maximum effectiveness, is one with which we shall be faced on a daily basis for the foreseeable future. Because meaningful action almost always involves dealing with other governments, our assistance programs will remain bound up with bilateral relationships no matter how sweeping the problems.

*Bilateral and Multilateral Assistance*

The President has recently decided that we shall continue to seek "substantial increases" in our foreign assistance program, although we will stretch the achievement of the targets of the Administration by one year. This is consistent with the austere budget which is basic to controlling inflation for the good not only of this nation, but of other developed and developing countries as well. The overall magnitude of our proposed program for the next two years is thus essentially set.

Yet within this total we must continue to seek the best balance of funding for our various bilateral and multilateral programs. Each has its own strengths, each has had its own successes, and each serves our national interest in its respective ways. As global conditions change, as individual countries or groups of nations require greater or lower levels of assistance of various types, we must respond to these changing capacities—and our own changing interests—by making the best use of the most appropriate programs. Does the bilateral program allow us to deal adequately with the development needs of developing countries? What is the appropriate long-term growth rate of the Multilateral Development Banks, and how should it relate to the growth of some of the major borrowers? Are the international organization programs which we support focusing on the right countries in their allocation of funds? How can we insure that food aid imports are not disincentives to local agricultural production?

Our planning must not be bound by conventional wisdoms, nor by the proportion of total assistance funding which currently moves through the respective programs. What was "right" in the past is only a general guide to the future.

### *Global Carrying Capacity*

Year by year we hear increased concern expressed about the ability of our global community to effectively manage the planet's resources. Are our short-run decisions consistent with the self-sustaining system which we must establish if that community is to be viable over the longer term?

This is a problem for both developed and developing countries, but the question frequently arises in the assistance context as developing countries move to accelerate economic growth. In their attempts to provide for the well-being of their people as rapidly as possible, they pursue policies of exploitation of resources which are in many cases similar to those pursued by the industrialized nations at parallel stages of their development. How can we encourage them to avoid our own mistakes without appearing indifferent to the needs of their undernourished and unemployed? Only by providing them with alternate means of achieving the prosperity toward which they strive.

A key challenge to our assistance programs is accelerating the design of more appropriate energy, agricultural, and other technologies in order to provide credible and acceptable alternative patterns of growth to developing countries.

The broader challenge, to all countries, is to accelerate economic growth in a way which allows the developing countries to increase their current 22 percent share of the global product while we all deal more effectively with the efficient long-term management of global resources.

### *Managing Change*

The process of development is inherently unstable. Providing the poor with new economic strength changes the political equation and results in change. Even depriving the poor of greater opportunity to participate in the economic progress of their countries does not eliminate eventual change; temporary stability achieved by repression simply ensures that the adjustments will be more explosive when they occur.

Thus the process of orderly development is one of managing change to keep the inevitable social and political adjustments within acceptable limits over time. How to do this is something which we have learned unevenly even within our own country; to prescribe how it might be accomplished within other cultures can be presumptuous. This is inescapably the responsibility of developing countries themselves, although we must stand ready to be supportive with our assistance.

While it is not for us, therefore, to manage change within the developing countries, it is our responsibility to determine which of them share our commitment to change through equitable growth. Once we are sure that a developing country shares our concern and embodies its commitment in its overall policies, we must be prepared to surrender a certain degree of "sovereignty" over our assistance funds and respect that country's ultimate responsibility. This may mean fairly broad program activities with indirect impact on large target groups. The corollary is that we must also be prepared to withhold other than carefully targeted humanitarian assistance to governments which do not share this concern; where resistance to change is institutionalized, a true basic human needs strategy is not possible.

As a democratic nation, it is in our interest to work toward an international community made up increasingly of other democratic nations. Only in such an environment can our values flourish. This means institutionalizing the process of change. We must not be diverted from this objective by the short-term allure of "reliable" governments which ensure stability by stifling social and political evolution.

President Carter recently characterized human rights as "the soul of our foreign policy." The right of the individual to participate in decisions affecting his political and economic prospects is basic to human rights, and it is the driving force behind the change which the development process must seek to encourage and to manage.

## GLOSSARY OF ACRONYMS

| | |
|---|---|
| ADB | Asian Development Bank |
| ADF | Asian Development Fund |
| AfDB | African Development Bank |
| AfDF | African Development Fund |
| AID | United States Agency for International Development |
| ATI | Appropriate Technology International |
| AVS | Association for Voluntary Sterilization |
| ASEAN | Association of South East Asian Nations |
| BIFAD | Board for International Food and Agricultural Development |
| CARE | Cooperative for American Relief Everywhere |
| CEQ | Council on Environmental Quality |
| CERDS | Charter of Economic Rights and Duties of States |
| CFF | Compensatory Financing Facility of the International Monetary Fund |
| CGIAR | Consultative Group for International Agricultural Research |
| CIEC | Conference on International Economic Cooperation |
| CODEL | Coordination in Development Consortium |
| COW | United Nations General Assembly, Committee of the Whole |
| CY | Calendar Year |
| DAC | Development Assistance Committee of the Organization for Economic Cooperation and Development |
| DC | Developed Country |
| DCC | Development Coordination Committee |
| DFC | Development Finance Company |
| DOE | U.S. Department of Energy |
| ECOSOC | Economic and Social Council, United Nations |
| EEC | European Economic Community |
| EPA | U.S. Environmental Protection Agency |
| ESCAP | Economic and Social Commission for Asia and the Pacific, UN |
| ESF | Economic Support Fund |
| FAC | Food Aid Convention |
| FAO | Food and Agricultural Organization, UN |
| FPIA | Family Planning International Assistance |
| FSO | Fund for Special Operations, the Inter-American Development Bank |
| FY | Fiscal Year |

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|---|---|
| GASGA | Group of Assistance in Systems Relating to Grain After Harvest |
| GATT | General Agreement on Tariffs and Trade |
| GDP | Gross Domestic Product |
| GNP | Gross National Product |
| GSA | U.S. General Services Administration |
| GSP | General System of Preferences |
| G-77 | Group of 77, consortium of developing countries in United Nations system |
| HABITAT | United Nations Center on Human Settlements |
| HEW | U.S. Department of Health, Education and Welfare |
| IAEA | International Atomic Energy Agency, UN |
| IBRD | International Bank for Reconstruction and Development, also known as the World Bank |
| ICA | International Coffee Agreement |
| ICRW | International Center for Research on Women |
| IDA | International Development Assistance |
| IDB | Inter-American Development Bank |
| IDS | International Development Strategy |
| IEA | International Energy Agency |
| IEC | Information, Education and Communication Programs |
| IFAD | International Fund for Agricultural Development |
| IFC | International Finance Corporation |
| IFDC | International Fertilizer Development Center |
| IFPRI | International Food Policy Research Institute |
| ILO | International Labor Organization |
| IMF | International Monetary Fund |
| IPC | Integrated Program on Commodities |
| IPPF | International Planned Parenthood Foundation |
| ISA | International Sugar Agreement |
| ISTC | Institute for Scientific and Technological Cooperation |
| ITC | International Tin Convention |
| IWC | International Wheat Convention |
| IWY | International Women's Year (1975) |
| LDCs | Less Developed Countries |
| LIFE | League for International Food Education |
| LLDCs | Least Developed Countries |
| MAP | Medical Assistance Program |
| MDBs | Multilateral Development Banks |
| MFM | Meals for Millions |
| MFN | Most Favored Nation |
| MIC | Middle Income Country |
| MTN | Multilateral Trade Negotiations |

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| NCIH | National Council on International Health |
| NIEO | New International Economic Order |
| OAS | Organization of American States |
| ODA | Official Development Assistance |
| OECD | Organization for Economic Cooperation and Development |
| OPEC | Organization of Petroleum Exporting Countries |
| OPIC | Overseas Private Investment Corporation |
| PC | Population Council |
| PF | Pathfinder |
| PHS | Public Health Services of HEW |
| PVOs | Private Voluntary Organizations |
| RTA | Retroactive Terms Adjustment |
| SCF/CDF | Save the Children/Community Development Foundation |
| SDR | Special Drawing Rights |
| SFF | Supplementary Financing Facility |
| SSE | Small-scale (industrial) Enterprise |
| TNC | Transnational Corporation |
| UNCTAD | United Nations Conference on Trade and Development |
| UNCSTD | United Nations Conference on Science and Technology for Development |
| UNDP | United Nations Development Program |
| UNEP | United Nations Environment Program |
| UNESCO | United Nations Educational, Scientific and Cultural Organization |
| UNFPA | United Nations Fund for Population Assistance |
| UNGA | United Nations General Assembly |
| UNICEF | United Nations Children's Fund |
| UNIDO | United Nations Industrial Development Organization |
| UNITAR | United Nations Institute for Training and Research |
| UNVP | United Nations Volunteer Program |
| USDA | U.S. Department of Agriculture |
| WFC | World Food Conference |
| WFP | World Food Program |
| WHO | World Health Organization |
| WID | Women in Development Program, AID |
| WIPO | World Intellectual Property Organization |
| WMO | World Meteorological Organization |
| WTC | Wheat Trade Convention |