Development Issues

U.S. Actions Affecting the Development of Developing Countries

The 1981 Annual Report of the Chairman of the Development Coordination Committee

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UNITED STATES
INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
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TO THE CONGRESS OF THE UNITED STATES:

This is the Annual Report on Development Coordination reporting on the events of 1980. It represents the cooperative efforts of the thirteen members of the Development Coordination Committee and is sent to Congress in accordance with my statutory mandate.

This Report reviews the economic performance and problems of Third World countries over the past year and summarizes United States actions affecting their economic development. It also outlines the economic needs of the developing nations and the United States activities that respond to those needs, in the context of the imperatives for development cooperation over the next decade.

This is the last Report that I will submit to Congress in my current position, and I want to underscore the key judgments that result from my experience.

First, development cooperation, involving much more than just development assistance through loans and grants, is in the clear national interest of the United States--in economic, political, and strategic, as well as humanitarian terms. Economic benefits are directly measurable in increased United States trade and jobs. Political and strategic benefits are less quantifiable, but no less real. At bottom, development cooperation must be the key component of long-term United States policies toward the Third World. Equitable economic development cannot guarantee a stable and peaceful world, but it is surely a necessary precondition. Irrespective of long-term progress in development cooperation, it is also certain that new Third World political crises affecting the entire globe--like those that recently occurred in Afghanistan, Iran, and Nicaragua--will emerge over the next decade. Development cooperation--through aid, trade, investment, and other means--will not check all such explosions. But it will be far more effective than any other means--including military aid--in increasing the chances for the United States to exert its leadership in promoting a peaceful and prospering world.

The people of the developing world look to the United States for support as they work toward economic, political, and social goals similar to those we have set for ourselves. To the extent that support is forthcoming, their abilities to undertake difficult economic adjustments and build democratic institutions will be enhanced. Equally important, the long-term global problems of primary concern to the United States, such as pollution and nuclear proliferation, are susceptible only to international solutions. The United States cannot isolate itself safely. The willingness of Third World countries to work cooperatively with us on these problems depends in large part on their perception of our willingness to work with them on issues of their primary concern, their development issues.

Second, the economic problems facing Third World countries are serious in the extreme. Hunger, population growth, environmental degradation, energy gaps, and financing needs have reached crisis proportions in the developing world.

Third, over time each of these crises can be resolved or at least contained. Sufficient food can be grown, transported, and distributed to feed the world's hungry people. Rapid population growth can be halted. Natural resources can be protected and pollution checked. Energy resources adequate to meet expanding demand and conservation techniques necessary to conserve energy supplies can be developed. Financing can be found to help developing countries make the necessary adjustments. If each of these problems is divided into its component parts and dealt with separately and consistently, all of them can be handled successfully over time.

Fourth, United States economic assistance can make important contributions to the solution of key development problems. To do so, our bilateral attention must be focused where the United States has strong comparative advantages--particularly in food and agriculture, energy, family planning, and primary health care. At the same time, we must also firmly support the multilateral institutions, particularly the World Bank, the regional development banks, the United Nations development agencies, and the International Monetary Fund. Together, these bilateral and multilateral efforts can have enormous impact in promoting international development.

Fifth, an overall United States development strategy must set priorities in the context of policies concerning international trade, investment, and monetary affairs, as well as multilateral and bilateral assistance. That assistance is crucial, but resistance to protectionist pressures in trade, promotion of sound private investment in development countries, and responsiveness to the financial concerns of those countries are no less important.

Sixth, a word of caution. It is tempting now, and may be increasingly tempting over the next decade, to ignore the long-term development issues raised in this Report in favor of trying to reward countries that seem to be current friends, particularly friends in the East-West context. That approach simply will not work, as is amply demonstrated by the history of the last two decades. There are no quick fixes in economic development, and few problems in the development context should be viewed primarily through the East-West prism. Every development country wants to be, and should be, considered in terms of its own needs and interests in relation to our own, not as part of distorting East-West or North-South dichotomies. Those dichotomies create dangerous distortions.

Finally, developing countries now seek United States leadership on the issues reviewed in this Report. My discussions with Third World leaders over the past year convince me of that fact. The opportunity now exists to put the United States in an unprecedented position of mutual confidence and respect with Third World nations. Reaching that position will require that we strengthen our bilateral and regional relationships and create multilateral arrangements and institutions responsive to Third World needs. We can do so by committing ourselves to a positive, collaborative diplomacy with the Third World. That diplomacy must strike a balance between short-term tactical requirements and long-term development cooperation. Pressures to mortgage the latter to the former should be resisted, for development cooperation is essential to mutually beneficial economic and political relations between the United States and the countries of the Third World.

No less important, the industrial nations of the West also look to the United States for leadership in resolving a broad range of international concerns. They view our positions on the issues raised in this Report as a benchmark of our ability to provide that leadership.

The issue is not knowing what to do--it is whether the United States will exercise the necessary political and economic leadership. Time is our scarcest nonrenewable resource.

It has been a privilege to serve as Director of the International Development Cooperation Agency and Chairman of the Development Coordination Committee.

Cordially,

Thomas Ehrlich

Thomas Ehrlich

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GLOSSARY OF ACRONYMS

ADB	Asian Development Bank
ADF	Asian Development Fund
AfDB	African Development Bank
AfDF	African Development Fund
AID	Agency for International Development
BIFAD	Board of International Food and Agricultural Development
CARE	Cooperative for American Relief Everywhere
CAST	Peace Corps Centers for Assessment and Training
CCC	Commodity Credit Corporation
CEQ	Council on Environmental Quality States
CFF	Compensatory Financing Facility of the International Monetary Fund
CGIAR	Consultative Group for International Agricultural Research
CIEC	Conference on International Economic Cooperation
CY	Calendar Year
DAC	Development Assistance Committee of the Organization for Economic Cooperaton and Development
DCC	Development Coordination Committee
DOE	Department of Energy
DRS	Debtor Reporting System
ECOSOC	United Nations Economic and Social Council
EEC	European Economic Community
EPA	United States Environmental Protection Agency
ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
ESF	Economic Support Fund
FAC	Food Aid Convention
FAO	United Nations Food and Agricultural Organization
FOB	Free on Board
FSO	Fund for Special Operations - The Inter-American Development Bank
FY	United States Fiscal Year
GAO	Government Accounting Office
GATT	General Agreement of Tariffs and Trade
GCI	General Capital Increase
GDP	Gross Domestic Product
GNP	Gross National Product

GSP	Generalized System of Preferences
G-77	Group of 77 Consortium of Developing Nations
HG	Housing Guarantees
IAEA	International Atomic Energy Agency
IAF	Inter-American Foundation
IBRD	International Bank for Reconstruction (World Bank)
ICA	International Commodity Agreements
ICM	Intergovernmental Committee for Migration
ICRC	International Committee for the Red Cross
IDA	International Development Association
IDB	Inter-American Development Bank
IDCA	International Development Cooperation Agency
IDS	International Development Strategy
IEA	International Energy Agency
IEAP	International Energy Development Program of the Department of Energy
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFPRI	International Food Policy Research Institute
ILO	International Labor Organization
IMF	International Monetary Fund
INRA	International Natural Rubber Agreement
IPC	Intergrated Program on Commodities
ISA	International Sugar Agreement
ISTC	Institute for Scientific and Technological Cooperation
ITC	International Tin Convention
ITC	International Trade Commission
IWC	International Wheat Convention
IWY	International Women's Year
LLDCs	Least Developed Countries
MDBs	Multilateral Develoment Banks
MFA	Multifiber Arrangement
MFN	Most Favored Nation
MIC	Middle Income Country
MTN	Multilateral Trade Negotiations
NGO	Non-Governmental Organization
NIEO	New International Economic Order
NSC	National Security Council
OAS	Organization of American States
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
OPG	Operational Program Grant
OPIC	Overseas Private Investment Corporation
PHC	Primary Health Care
PL-480	Public Law 480

PVOs	Private Voluntary Organizations
RTA	Retroactive Terms Adjustment
SDRs	Special Drawing Rights
SEEU	Small Enterprise Employment Unit
SFF	Supplementary Financing Facility
TDP	Trade and Development Program
TNC	Transnational Corporation
UN	United Nations
UNCDF	United Nations Capital Development Fund
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 Energy Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Fund for Population Activities
UNGA	United Nations General Assembly
UNHCR	United Nations High Commission for Refugees
UNICEF	United Nations Childrens Fund
UNIDO	United Nations Industrial Development Organization
UNITAR	United Nations Institute for Training and Research
USDA	United States Department of Agriculture
WFC	World Food Conference
WFP	World Food Program
WHO	World Health Organiation
WID	Women in Development
WTC	Wheat Trade Convention

I. INTRODUCTION

US Development Cooperation in 1980

Development cooperation has occurred this year in a setting of international economic turbulence and political volatility. Both economic and political conditions have made 1980 a tough year for international development cooperation efforts--witnessed by the difficulty the United States has had in passing its annual foreign assistance legislation. Recent events have also shown, however, that greater development cooperation is essential to the economic well-being, social cohesion, and national security of the United States as well as other nations.

In the course of the last year, the United States has taken a number of steps to increase the effectiveness of its bilateral aid program. The United States has also supported important new developments in the World Bank and International Monetary Fund that will enable these institutions to respond more effectively to changing world economic conditions and has participated in various international efforts that have served to set the development agenda for the decade of the 1980s. In addition, the release of several major reports on international economic development and resource problems has provided the government an opportunity to assess the global economic situation at the close of the 1970s and to explore options for the future.

The chapters of this interagency report describe in some detail United States development cooperation efforts in 1980. This introduction highlights the major events, issues, policy initiatives, and accomplishments. It also summarizes the main activities of the first full year of operation of the US International Development Cooperation Agency (IDCA).

The Global Setting

For both developed and developing countries, 1980 was a year of slow economic growth, high inflation, and major external payments imbalances. A near doubling of oil prices in 1979 was a central factor in this deteriorating world economic situation.

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For the United States and other industrial countries, economic growth declined significantly in the wake of oil price increases. The sluggish economic performance of the industrial economies has, in turn, reduced demand for developing countries' exports. This sluggish performance, along with efforts to fight inflation by reducing federal spending, has inevitably pressed against increases in development assistance.

Most of the non-oil developing countries weathered the first oil shock of 1973-74, in part by heavy commercial borrowing, but they are badly positioned for the 1980s. On average, non-oil developing countries now spend almost half their export earnings on oil imports and debt servicing alone. Preliminary estimates of their combined current account deficit are around $68 billion for 1980 (an increase from $28 billion in 1977, $36 billion in 1978, and $55 billion in 1979). Net private investment now covers only a small portion of their financing needs. Further, those countries able to borrow from the private capital market have already accumulated high levels of debt, much of it due over the next few years.

Poorer countries, which have had to rely almost exclusively on official financial assistance, confront increasing constraints on public expenditures in donor countries at the very time their financing needs are rising rapidly. One crucial question for both groups of developing countries is whether they will be able to marshal sufficient financing--concessional for the poorest, non-concessional for the more advanced--to maintain reasonable growth in imports and production and continue progress toward the alleviation of widespread poverty.

The Need to Adjust

Faced with the basic changes that have occurred in the world economy, developed and developing countries alike must adjust their economies. In the 1960s and 1970s, many developing countries sought short-term balance of payments support to help in difficult years when imports exceeded exports. Now they are faced with the need to adjust to major structural changes in the global economy. These adjustments must be substantial in order to enable developed countries to sustain even moderate rates of growth without incurring serious payments imbalances or unmanageable external debt.

While adjustments will vary from developing country to developing country, greater self-sufficiency in energy and food, sensible import substitution, and promotion of exports must be the main element of structural adjustment programs. The process of major adjustments in patterns of investment, consumption, and trade will be as politically difficult as it will be long.

Development Cooperation

Given today's economic circumstances, it is notable that a start was made in 1980 toward implementing the agreements reached at the Multilateral Trade Negotiations (the Tokyo Round)--rather than the protectionist retreat that all too often accompanies serious recession. Developing countries need continued access to markets if they are to succeed in making adjustments necessary to sustainable growth. Only if they continue to grow will developing countries remain the fastest growing market for US goods and services.

Developing nations also need increased financial assistance to facilitate the difficult task of balance of payments adjustment. The International Monetary Fund has a central role to play in providing temporary financing in support of adjustment. Recent policy initiatives undertaken with US support have improved the Fund's ability to respond to short- to medium-term balance of payments financing needs. It will need additional resources, however, to continue providing adequate assistance to countries prepared to make necessary adjustments. The scheduled quota increases which came into force at the end of 1980, and new plans for borrowing from various sources, are essential to that end.

In addition to an increased role for the IMF, a sharpened focus by developing and donor countries alike on the food and energy sectors could make an important contribution to the process of adjustment and the promotion of sustainable growth. An increase in food and agricultural production could reverse the current trend of growing dependence on food imports in developing countries and help raise the incomes of the poor. Development of indigenous energy resources, and better management of existing ones, could stem the rise of developing countries' oil import bills and ease such ecological dangers as excessively rapid deforestation caused by greatly increasing use of fuelwood by the Third World's rural poor.

The World Bank (IBRD) and the regional development banks for Asia, Africa, and Latin America already direct almost a third of their lending to agricultural and rural development efforts. Participants at the 1980 Venice Economic Summit asked the World Bank to examine the adequacy of existing resources and mechanisms for energy efforts in developing countries and to consider means for increasing the World Bank's program in this area, including the possible establishment of an energy affiliate or facility. In addition, in May the World Bank's Executive Board approved a new structural adjustment lending program designed to encourage individual developing countries to undertake necessary economic policy measures to reduce their current account deficits in the medium-term to sustainable levels.

As with the IMF, however, the World Bank needs additional resources if it is to expand its lending in these ways without cutting into other vital areas of financing. It is essential, therefore, that Congress authorize and appropriate the US share of the sixth replenishment of the International Development Association (IDA), the "soft loan window" of the World Bank, which provides development financing to the world's poorest countries. The United States must also approve its share of the general capital increase for the World Bank as well as give serious attention to discussions now underway on additional means of expanding the lending capacity of the Bank.

Although the United States now provides a rising portion of its development assistance to the multilateral development banks, the bilateral aid program remains an essential component of US economic relations with developing countries and a vital instrument in helping countries achieve development goals. In 1980 steps were taken to sharpen the focus of US aid efforts on the priority problems of food and energy and on population growth, which is a vital companion issue because of the long term pressures of high birth rates on resources. Steps were also taken to increase the effectiveness of the bilateral program by focussing more heavily on countries where needs are greatest and prospects for real progress are highest, and to improve the evaluation of aid projects and programs.

In quantitative terms, however, our aid performance continues to lag. Although the United States continues to lead industrialized nations in the total amount of aid provided, in terms of aid as a percentage of GNP the United States has slipped to the rank of 15th out of 17 industrial

donor countries. Fiscal Year 1980 economic assistance programs were funded under a continuing resolution, which held funding for most programs to the same levels as in 1979. Another continuing resolution now governs funding for 1981. Taking account of inflation, this means that US assistance has declined in real terms. It also means that US arrearages for internationally negotiated contributions to the multilateral development banks have increased.

The Growing Refugee Problem

For some countries, political conflict or the failure to develop (or develop equitably) has given rise to growing numbers of emigrants and refugees. For other countries, the flow of refugees across their borders has added an awesome new dimension to an already difficult development process. This past year has seen both an intensification of the refugee problem and stepped up efforts by the international community to deal with immediate relief problems and the longer term development problems reflected in and exacerbated by growing numbers of refugees. Thus, Development Issues includes, for the first time, a separate section on refugees (IV. D.). The refugee problem is one of a growing number of global problems, that are not likely to be solved by national actions alone.

Defining the Challenges of the Eighties

In the course of last year, the United States reviewed a number of reports discussing a wide array of global problems, including the Brandt Commission Report (Report of the Independent Commission on International Development Issues), the Report of the President's Commission on World Hunger, and Global 2000, a US Government task force report on global resources and the environment.

A call to eliminate widespread poverty is a central recommendation of each of these special reports. Each also argues for putting relations between developed countries of the North and developing countries of the South on a new footing--for building relations on the basis of mutuality of commitment and for focussing together on key problems of common concern.

The Hunger Commission Report found that the problem of world hunger is not limited to intermittent or localized crises; rather, it is a matter of chronic under-nutrition. The solution, it concludes, lies in attacking world poverty and in raising the incomes of poor people throughout the

Third World. In the Commission's words, "a nation's nutritional needs cannot be effectively addressed in isolation from broader social and economic programs that increase overall productivity and the incomes of the poor."

The Brandt Commission Report, written by prominent individuals from developed and developing countries, stresses that it is in the mutual interest of rich and poor nations alike to act cooperatively and affirmatively to accelerate Third World development. The Brandt Commission Report proposes a four part Emergency Program for the first five years of the decade, including: an international energy strategy; a global food program; large-scale resource transfers; and a start on major reforms in the international economic system. The underlying theme of the Brandt Report is that all nations confront a growing number of problems that cannot be solved by national actions alone but require global solutions.

Global 2000 provides stark evidence of the dangers facing the international community and identifes the resolution of Third World problems as a critical element in confronting successfully those dangers. World population will increase by 50 percent before the end of this century, with 90 percent of that growth in developing countries, unless concerted action is taken. As world population grows, increased demand will be placed on the world's resources and the environment. Demands for fresh water, for example, are expected to expand by 200 to 300 percent with the greatest increases in demand occurring in the developing countries.

The overall picture painted by the Global 2000 Report is one of:

-- an increasing gap in income between the richest and poorest nations;

-- higher real prices for food and energy, and a degradation of agricultural land, water, forests, and other natural resources;

-- serious environmental degradation, including the loss of 40 percent of tropical forests;

-- an increased potential for international conflict stemming from the scarity of various resources.

Secretary of State Muskie stressed the message of Global 2000 in addressing a special UN session development last August. He emphasized the need for all nations to work together "to secure our common future on a fragile planet" and pointed out that Global 2000 is not a forecast but a projection of present trends. The Secretary called Global 2000 a "chilling reminder" that the future of rick and poor nations alike depends on common success in the complex of North-South relations.

Secretary Muskie outlined the tasks for four groups of countries. He challenged the industrialized countries, including the United States, to:

-- Reduce their rate of domestic inflation. Spiraling prices restrain growth and make the world economy more vulnerable and the distribution of wealth less fair.

-- Keep markets open, particularly to products from developing countries.

-- Use energy more efficiently, increase domestic production, spur the development of new energy sources, and cut reliance on imported oil.

-- Increase aid to the developing nations despite the need for budget restraint to control inflation.

-- Continue to accept an increased role for developing countries in international economic decision-making -- a role commensurate with their growing importance in the world economy and their willingness to share international obligations.

-- Increase the capacity of developing countries to apply science and technology for development and accelerate the transfer of information, technology, pollution control strategies, and other skills.

Secretary Muskie suggested that the oil exporting countries, given the impact that oil price increases have had on the world economy, have a responsibility to:

-- Adopt stable oil price and supply policies to avoid further trauma to the international economy.

-- Increase aid and recycle more of their surpluses directly to developing nations.

-- Join with consuming nations in working for rational global energy arrangements.

The Secretary acknowledged that external assistance will always be a secondary factor in the promotion of development and the management of economic problems because the major determinants of development in developing countries are internal -- the ability to use resources effectively, to encourage innovation, and to share broadly the benefits of growth. He went on to list responsibilities that the developing countries must shoulder:

-- Use domestic and external resources efficiently and fairly, with concentration on such priority areas as energy and food.

-- Intensify family planning efforts; population growth does more to threaten their future than any other single factor. Nine-tenths of the world's population increase in the next 20 years will be in developing countries.

-- Accept more responsibility, on a country-by-country basis, for the common management of international economic and resource problems.

-- Open their own economies to free flows of world trade as development proceeds.

The Secretary also urged centrally planned countries to:

-- Increase their assistance to developing countries.

-- Increase their unconditioned purchases of LDC products.

-- Cooperate in international efforts to stabilize commodity markets.

Secretary Muskie concluded that acceptance of these shared responsibilities must form the basis on which the world can move forward toward meeting the challenge of the eighties.

The UN Special Session on Development discussed but failed to agree on a round of "global negotiations" to be launched early in 1981. If agreed to, these negotiations would address a wide range of international economic issues and could offer one -- though not the only -- opportunity for making concrete progress on priority problems of common concern. So too, will a number of other international meetings scheduled for 1981, including the Ottawa Summit in June, a September UN Conference on Least Developed Countries, an August UN Conference on New and Renewable Energy Resources, and perhaps a summit meeting of heads of state of about 25 developed and developing countries (referred to as the "North-South summit" and first proposed in the Brandt Commission Report). The opportunity for collective problem solving that these international meetings offer can be realized only if countries agree to commit themselves to significant action on an agenda of priority issues. Though developed and developing countries disagree on a number of points, Global 2000, the Brandt Commission Report, and the Hunger Commission Report, as well as preparatory talks on Global Negotiations, all suggest that the international community may be moving toward greater consensus on some key issues.

The United States cannot alone achieve success in these efforts. Nor can it afford to neglect the long-term, global problems that affect our political, economic, and social well-being. But the strongest and richest nation in the world, the United States can provide leadership on global problems. The quality of its leadership and the clarity of its policies will do much to shape the structure of the international society that is passed on to future generations.

The International Development Cooperation Agency

To ensure more effective US international development policies President Carter proposed, and the Congress approved, the creation of the International Development Cooperation Agency (IDCA). IDCA prepares and presents to the President, Congress, and the public a development assistance budget integrating the bilateral and multilateral foreign

assistance funds provided by the United States. IDCA is responsible for development policy guidance to these programs. The IDCA Director chairs the Development Coordination Committee, the interagency group responsible for coordinating development policies and programs with related non-development concerns. In addition, IDCA is responsible for ensuring that development goals are taken fully into account in Executive Branch decision-making on international finance, investment, trade, technology, and other policy issues affecting developing countries.

In preparing the first two comprehensive US development assistance budgets, IDCA has emphasized food, family planning, and primary health care, and energy. The Multilateral Development Banks have been encouraged to increase their assistance in these three areas. This emphasis reflects the US view that the most pressing development issues for the 1980s are: adjustments to changing world economic conditions, including the higher cost of energy and the payments imbalance consequently engendered; the elimination of hunger, primarily through increased food production in developing countries; increased energy production in developing countries; a significant reduction in the population growth rate; and a concern for preservation of the global environment and resource base.

IDCA has established a budget review process to ensure that scarce development resources are used as effectively as possible. Increased emphasis has been given in the Agency for International Development's (AID's) country reviews to each recipient country's overall policy setting and the full range of instruments available to meet its external resource needs--trade, private investment, and finance as well as aid. Particular efforts are being made to integrate food aid (PL-480) assistance more fully into the total US development program.

To ensure coordination of AID activities with those of the Multilateral Development Banks, IDCA (with AID, State, and Treasury) has established an "early warning system" for proposed MDB loans. Under this system, IDCA has begun regular reviews of potential loans to fifteen major developing country borrowers and informs AID missions (or US embassies where there is no AID mission) of the proposals.

This process enables the missions (and embassies) to spot and report on potential problems and provide constructive suggestions on project development while planning for projects is still in the early stages. The system also assists AID in planning its country programs more effectively through improved coordination of AID and MDB activities.

The Peace Corps, while not formally incorporated within IDCA, cooperates closely with IDCA in the US foreign assistance effort. Peace Corps' collaborative efforts with AID have been expanding, including new efforts launched in energy conservation, alternative energy technologies, and in forestry development and conservation. Peace Corps also collaborates with the multilateral development banks, UN organizations, and private voluntary organizations.

Recognizing the need and potential for private sector involvement in US development efforts, IDCA established the Trade and Development Program (TDP) as a separate unit within IDCA in July 1980. TDP is an outgrowth of the AID Reimbursable Development Program. It funds pre-investment studies by US firms in various areas such as energy. TDP also promotes involvement of a range of US agencies in development projects on a reimbursable basis. TDP's goals are to promote development, particularly in the more advanced developing countries, to increase private sector involvement in the development process, and to expand US exports. In this way, TDP complements the Overseas Private Investment Corporation (OPIC), another IDCA component, which operates as a self-sustaining government corporation to provide political risk insurance, loans, and loan guaranties for US private investors in developing countries.

In addition, IDCA and AID have moved this year to enhance, within existing organizational structures, the effectiveness with which US science and technology is applied to the problems of developing countries. A Science Advisor to the AID Administrator and IDCA Director has been appointed. The Advisor will help to strengthen the role of science and technology throughout all aspects of the US bilateral and multilateral assistance, advise on policies related to science and technology, maintain liaison with scientific communities in the United States and developing countries, and encourage US agencies to make their research and development activities more relevant to developing countries' needs.

These steps in development assistance and in other areas of North-South policy should contribute to strengthened US relations with the Third World. That set of relations is central to the national security interests of the United States and to the search for solutions to a number of global economic problems including those of inflation, energy, food, and renewed economic growth.

II. DEVELOPING COUNTRIES IN THE WORLD ECONOMY

II.A. DEVELOPMENT IN 1980 - A YEAR OF ADJUSTMENT

The Impact of Oil Price Increases

For oil importing countries, developed and developing, 1980 was a year of slow economic growth, high inflation, and large balance of payments deficits. The common factor in each case was the dramatic increase in the price of oil over the last two years. This increase has significantly altered the economic environment and has made the achievement of economic growth and social advance by the oil-importing developing world far more difficult. It has also increased the urgency of undertaking major economic policy reforms and adjustments designed to adapt the economies of these countries to new economic conditions. This process of adjustment was begun in 1980, and will be an important development issue in coming years.

The average price of OPEC oil increased from $14 a barrel at the end of 1978 to an average of $34 a barrel in the last quarter of 1980. Despite a slight reduction in the actual volume of oil imports by the non-oil exporting developing countries,1/ their net oil import bill increased by $35 billion between 1978 and 1980, reaching a level of $67 billion. In contrast, their 1973 oil import bill was only $7 billion.

1/ Country categories are those used by the IMF. Oil-exporting countries are defined as those whose (net) oil exports (a) are at least two-thirds of the country's total exports, and (b) are at least 100 million barrels a year, i.e. Iraq, Kuwait, Qatar, Saudi Arabia, the United Arab Emirates, Nigeria, Algeria, and Indonesia. Thus the category "non-oil exporting" actually includes 12 developing countries that do export some oil, but largely comprises the majority of developing countries.

There has been a corresponding and almost equal deterioration in the balance of payments position of the developing world. In 1978, the current account deficit of these countries stood at $36 billion. The estimated deficit for 1980 is $68 billion (almost identical to their oil import bill). The industrial countries at the same time are expected to experience a current account deficit on the order of $50 billion in 1980, compared with a current account surplus of $33 billion in 1978. The oil-exporting countries are expected to have a current account surplus of around $115 billion, which again has raised the issue of the effective recycling of part of these surpluses to the developing countries. (See section II.C. on International Finance.)

Increased rates of inflation have also accompanied the increase in oil prices. For the industrial countries as a group, the rate of inflation2/ rose from 7% in 1978 to close to 12% in 1980 despite extremely slow economic growth. For the United States, the change in consumer prices was even greater, increasing from 7.7% in 1978 to 13.7% in 1980. The rate of inflation in the non-oil developing world has similarly increased from less than 24% in 1978 to close to 30% in 1980. This reversed a rather significant reduction in the prevailing rate of inflation during the immediately preceding years.

The increased price of oil amounts to a loss in real income in all oil importing countries, developed and developing, as more domestic resources are needed to pay for the same volume of oil imports. Although external borrowing or use of foreign exchange reserves can spread the effect over time, the oil importing countries will eventually absorb the loss. The impact has already been reflected; economic growth among the industrial countries declined

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2/ Increases in weighted average of GNP deflators.

significantly after the 1979 oil price increases after having recovered strongly in 1976-1978 from the 1974 oil price increases. The OECD countries' real growth rate slowed from 4.0% in 1978 to 3.4% in 1979 and to only 1% in 1980. The downturn in the United States was particularly severe. US economic growth was only 2.3% in 1979 and a negative 1% in 1980 (as compared to 4.4% in 1978), while unemployment rose from an average rate of 5.8% in 1979 to 7.6% in October 1980.

In response to abnormally high inflation rates, most industrial countries have instituted and maintained tight monetary and fiscal policies, despite the existence of slow economic growth and high unemployment. These policies, which are expected to be maintained over the foreseeable future, hold little promise for a rapid return to strong OECD growth performance. It has been estimated that OECD growth will average only 2.5% over the 1980-1985 period.

For the non-oil developing countries, the slow growth in the industrial countries has reduced the demand for their exports and reduced their economic growth prospects. The growth in the volume of OECD imports from all sources, for example, fell from a rate of 8.5 percent in 1979 to only 1.5 percent in 1980. The slow growth of the US economy produced an estimated decline of 2.5 percent in the volume of US imports from the developing countries in 1980.

These factors have had a detrimental impact on the economic performance of the non-oil developing countries. Growth in these countries in 1980 is not expected to exceed 4.7%. This is a slight improvement over the rate achieved in 1979, but is below the 5% average achieved in the 1976-1978 period and is well short of the 6% average for the 1967-1972 pre-oil price increase period. With a 1980 per capita growth of little more than 2%, this performance is far from satisfactory. More rapid economic growth will be necessary to achieve a significant improvement, during the 1980s, in the well-being of those living in the non-oil developing countries.

These figures on average performance in non-oil developing countries mask marked differences between individual developing countries not only in their past and current economic performance, but also in the impact of external factors on their economies and the nature of the adjustment process that will be needed. While the economies of the low-income countries have been affected by oil price increases, the impact has not been as great as in the case of the middle-income developing countries.

The economic performance of the low-income developing countries depends heavily on their agricultural production. Despite higher oil prices and recession, average economic growth in these countries appears to have improved significantly in 1980 over the dismal record of 1979, which included negative per capita growth. The expected 1980 rate of growth is close to 4 percent, or approximately 1.5 percent in per capita terms. By comparison, the average for these countries over the 1970s was slightly less than 1%. This stronger performance in 1980 is, however, well below the average for all developing countries and results in large part from bumper harvests in Bangladesh and India. For the 25 sub-Saharan African countries, among the poorest and the slowest growing developing countries, crop failures created by the current drought have severely curtailed their already poor economic performance.

The general economic performance of middle-income countries in contrast has been more directly affected by the oil price increase and the global recession because of their far greater use of commercial energy and heavier involvement in the international economy. These middle-income countries depend on expanding manufactured exports to earn foreign exchange to purchase oil and other imports and to service their rapidly increasing external debt.

$31 billion of the total increase of $35 billion in the developing countries' oil import bill between 1978 and 1980, came from what were then middle-income countries.

The Process of Adjustment

Oil importing countries, whether low-or middle-income, will require greater export earnings, reduced imports, and additional external financing to pay for the increased cost of oil. To achieve these changes, the country must undertake difficult domestic macroeconomic policy reforms to promote relative price stability and maintain realistic foreign exchange rates, which will facilitate expansion of exports and reduction of imports. On the supply side, since most external financial support must be repaid out of future foriegn exchange receipts, additional financing should fund directly productive investment projects to assist or encourage policy reform and increases in a country's productive capacity, particularly for export. Policy reform centering around the encouragement of appropriate market incentives for efficient resource allocation is esential. An essential element in such incentives is an increase in domestic energy prices to reflect the real costs of energy and thus encourage conservation or increased development of domestic energy sources and less energy intensive processes.

A second element, especially for low-income countries, is expansion of agricultural output, especially food. Such expansion is necessary both for long-term development and for medium-term adjustment. In the long-term, increased agricultural and food output can make significant contributions to raising the incomes of poor people as well as increasing supplies of food. This increased income is a critical element in the satisfaction of basic needs. In the medium-term, expansion of domestic food output can provide for efficient substitution of imports and ease, at least to some extent, foreign exchange needs.

A third element in adjustment is adoption of trade policies that encourage export expansion. Of course, for such policies to succeed, it is essential that markets for developing countries' exports remain open and unencumbered by additional restrictions. Similarly, as the developing countries mature economically, they should progressively dismantle their own import barriers to help maintain global movement toward an open trade system.

The adjustment made by the developing countries to the oil price increases after 1974 was far better than anticipated at the time. In particular, many of the higher income developing countries borrowed extensively on the private capital market, attracted foreign investment, and rapidly expanded their export earnings--primarily their manufactured exports to the developed world. The volume of developing world exports in fact grew by 6% annually between 1973 and 1978. At the same time, official financing, both concessional and non-concessional, and private capital financing increased significantly from a level of $24 billion in 1973 ($12 billion official, $12 billion private) to $71 billion in 1978 ($25 billion official, $46 billion private).

Significant progress has been made in devising mechanisms to support the adjustment efforts of developing countries. Changes within the International Monetary Fund (IMF) were a particularly important aspect of the post 1974 response by the international community. Among these changes were: an expansion of IMF resources; increased access to these resources through existing facilities and the establishment of new instruments such as the Trust Fund for lower-income countries; and the application of greater flexibility in the IMF's approach to stabilization efforts. These changes greatly increased the capacity of the IMF to respond to developing country balance of payments problems, including adverse external shocks such as higher oil prices and unforeseen events like production and export shortfalls. Similarly the increased funding of the World Bank (IBRD) and its recent extension of structural adjustment lending to selected developing countries in support of policy reform, often in conjunction with the IMF, is expected to be an important instrument in facilitating the adjustment process over the next few years. (Further detail on these changes is presented in sections II.C. and IV.A.)

Despite these institutional changes and the corresponding increase in the capacity of the international community to respond to adjustment problems in the developing countries, there are reasons for concern about their prospects. Unlike the experience in 1974-1980, oil prices now are expected to continue to rise in real terms, maintaining pressure on the developing countries' balance of payments. The World Bank, for example, estimates that oil import costs for non-oil developing countries will rise to $124 billion by 1985 if OPEC succeeds in slowly raising the

real price of oil over the next five years. Similarly, developing countries' outstanding external debt and debt servicing (public and publicly guaranteed) have grown enormously since 1973, reaching $280 billion and $42 billion respectively at the end of 1980. Thus, some banks may be reaching their perceived limits of exposure in these countries and may be reluctant to increase significantly their lending to individual developing countries. There is also little expectation that the OPEC countries will dramatically increase their imports from the non-oil developing countries, as they did in the post 1974 period--reflecting in large measure the absorptive constraints which many of the small OPEC countries have experienced in recent years. Finally, developing countries' capacity to increase exports to the developed countries at the rapid rate of 1975-1978 is questionable because of expected slow growth of the developed countries and increased protectionist sentiment, particularly toward labor intensive imports.

For most low-income developing countries the options are extremely limited. Given the economic structure characteristic of these countries, the potential for generating additional exports, particularly in the manufacturing sector, is small. Similarly, the potential for further reduction in imports, including petroleum, without a corresponding curtailment of growth is virtually nonexistent for many of these countries. Not only do they import few if any nonessential goods but they have little capacity for efficient import substitution in the short term. Their foreign exchange reserves are generally in short supply. Most of these countries cannot, and probably should not, borrow significant amounts on the private capital markets, nor are they likely to attract significant foreign investment.

The IMF is an important potential source of short-to medium-term external financing flows to the low income countries. Over the longer-term, the availability of additional concessional assistance will determine substantially the extent to which these countries can adjust and achieve measurable positive growth and improvement in the welfare of their people. The World Bank estimates that the per capita growth rate of these countries will remain around one percent a year over the 1980-1985 period, with any significant improvement in this level requiring not only policy reforms in these countries but also larger than projected concessional flows.

For many of the more developed middle-income countries, funds from the IMF and World bank, as well as bilateral assistance, will be important in encouraging and facilitating needed policy reforms and adjustment. Although these reforms are a necessary condition for sustained progress in most of these countries, their economic performance over the next few years will depend heavily on future OPEC price actions, continued access to the private capital markets, and economic growth and trade policy action in the developed world. Based on current trends, the World Bank has estimated that the per capita growth rates of the middle-income countries over the 1980-85 period will reach only 2 percent per year. This contrasts to the 3.1 percent growth achieved during the 1970s and 3.6 percent achieved during the 1960s.

Developing countries appear to be increasingly aware of the need to undertake difficult policy changes, and the international community appears increasingly aware of the importance of assisting the developing countries to adjust. Most of the oil-importing developing countries have, in fact, permitted sharp increases in their domestic prices of imported energy. Some developing countries have reversed previous domestic policies and now permit foreign exploration and partner participation in an effort to locate and increase domestic production of oil. A few of the non-oil developing countries have also attempted to step up the production and use of non-oil energy resources, such as an alcohol production effort in Brazil and the development and improvement of traditional and renewable energy resources in other developing countries. Through these and other efforts non-oil developing countries have been able to reduce the net volume of imported oil in recent years, while achieving moderate economic growth rates. Despite this progress, the non-oil developing countries recognize that further changes and adjustments will have to be undertaken, and for that increased international assistance will be needed.

II.B. INTERNATIONAL TRADE AND COMMODITY AGREEMENTS

Recent Trade Performance in Developing Countries

During 1979 the value of world exports increased by more than 26 percent on an annual basis and exceeded $1.5 trillion (Table II.B.1). This expansion corresponded to a growth rate of approximately six percent per annum in volume. The growth in export volume was essentially the same as that recorded in 1978, but the growth in value was sharply higher than in 1978, reflecting accelerating inflation in traded goods, especially crude oil.

Although the non-OPEC developing countries' export earnings grew by nearly 29 percent in 1979, increases in oil prices placed great strains on the external accounts of the oil-importing developing countries. Their current account deficits reached $55 billion in 1979, more than 50 percent higher than the previous year's deficit. These deficits amounted to 4 percent of their gross domestic product, compared to less than 3 percent only two years ago. In 1980 these countries are expected to incur an aggregate current account deficit approaching $70 billion. These additional balance of payment strains are impeding the growth of many developing nations. Even developing countries able to finance their deficits in the immediate future ultimately will have to divert resources from other development efforts to pay higher bills for oil imports.

The adjustment to the oil shocks of the mid-1970s demonstrates that successful structural adjustment and a return to acceptable economic growth rates in developing countries depend, among other things, on substantial expansion and diversification of their exports. A strong export performance is necessary for a country to maintain critical imports of raw materials, capital goods, and intermediate inputs in the face of higher costs for energy imports. It also preserves the country's creditworthiness in financial markets and its attractiveness to foreign investors. In light of these circumstances, special efforts must be made by all countries to maintain open markets for the products of developing countries. The commitment to freer trade is particularly important in this round of adjustment because many developing countries are entering the adjustment period with high debt service obligations from previous borrowing and low prospects for substantial increases in concessional capital inflows.

TABLE II.B.1

TRADE BETWEEN DEVELOPED AND DEVELOPING COUNTRIES

	EXPORTS (F.O.B. $BILLION)		AVERAGE ANNUAL GROWTH RATE (%	
	1970	1979	1970-1979	1978-1979
World Exports 1/	282.2	1502.7	20.4%	26.2%
To Developed Countries	222.1	1125.9	19.8%	29.0%
To OPEC	9.3	98.2	29.9%	2.5%
To non-OPEC LDCs	44.6	244.3	20.8%	28.6%
Developed Country Exports	226.9	1095.9	19.1%	23.1%
To Developed Countries	174.9	792.4	18.3%	26.1%
To OPEC	7.8	78.9	29.1%	-3.3%
To non-OPEC LDCs	32.9	152.9	18.6%	23.7%
OPEC Exports	17.7	205.6	31.3%	43.4%
To Developed Countries	14.0	159.1	31.0%	43.1%
To OPEC	.1	2.0	39.5%	66.7%
To non-OPEC LDCs	3.2	42.2	33.2%	40.2%
Non-OPEC LDC Exports	36.5	192.7	20.3%	28.8%
To Developed Countries	26.2	131.0	19.6%	29.3%
To OPEC	.9	13.2	34.8%	28.2%
To non-OPEC LDCs	6.5	39.4	22.2%	34.0%

SOURCE: IMF, Direction of Trade

1/ World export totals exclude centrally-planned economies.

The developed countries remain the chief market for exports of developing countries, accounting for 68.0 percent of non-OPEC developing countries' export in 1979. The United States alone purchased 26.5 percent of the non-oil developing countries' total exports last year. The fastest growing markets for the developing countries, however, are in the other developing countries, particularly the members of OPEC. Over the past decade, the non-OPEC developing countries have expanded their exports to each other at an average annual rate of 22.2 percent and to OPEC at 34.8 percent.

Importance of Developing Country Trade to the United States

The importance of the developing countries in the trade of the United States continued to increase during 1979. The developing countries presently account for 40 percent of US trade, which is greater than US trade with Western Europe, Japan, Australia, New Zealand, and South Africa combined. During the past year US exports to the non-OPEC developing countries expanded by 32.2 percent, thereby helping to cushion the economic slowdown in the US economy. US imports from these countries grew less rapidly (24.2 percent), thereby reducing our trade deficit with them (Table II.B.2) Exports to OPEC, on the other hand, declined by nearly 10 percent in 1979 due to a $2.7 billion drop in our exports to Iran. Imports from OPEC jumped by 36.8 percent primarily because of increases in petroleum prices.

The developing countries are important markets for US exports of manufactured goods, particularly capital goods such as machinery, civil aircraft, trucks, and buses (Table II.B.3). US exports of capital goods to the developing countries are four and one half times greater than their exports of capital goods to the United States and have been growing at over 21 percent annually throughout the decade. The developing countries also are major markets for US agricultural goods, but in that sector the aggregate trade flows between the United States and developing countries are essentially balanced. As producers of raw materials, the developing countries run a huge surplus with the United States in industrial supplies and materials, with fuels being the overwhelming item. Trade in consumer goods also runs in favor of the developing countries; they are the major source of US imports of clothing, leather products, footwear, toys and various electrical household appliances.

TABLE II.B.2

US TRADE WITH DEVELOPING COUNTRIES
($ BILLION)

	US EXPORTS TO NON-OPEC LDCs	US IMPORTS FROM NON-OPEC LDCs	TRADE BALANCE WITH NON-OPEC LDCs	US EXPORTS TO OPEC	US IMPORTS FROM OPEC	TRADE BALANCE WITH OPEC
1970	10.9	8.8	2.1	2.1	1.7	.4
1971	11.1	9.5	1.6	2.3	2.1	.2
1972	11.8	12.0	-.2	2.8	2.7	.1
1973	17.4	15.7	1.7	3.6	4.6	-1.0
1974	26.0	23.8	2.2	6.7	15.6	-8.9
1975	28.4	22.2	6.2	10.8	17.1	-6.3
1976	27.8	27.6	.2	12.5	25.0	-12.5
1977	29.3	34.5	-5.2	14.0	33.2	-19.2
1978	36.2	40.5	-4.3	16.7	30.7	-14.0
1979	47.9	50.3	-2.4	15.1	42.0	-26.9

1/ Exports are free alongside ship transaction values, except prior to 1974 when imports are customs values.

SOURCE: U.S. Department of Commerce, US Foreign Trade Annual 1973-79, July 1980 - International Economic Report of the President (1977)

TABLE II.B.3

US-DEVELOPING COUNTRIES TRADE
IN
MANUFACTURES
($ BILLION)

	US EXPORTS	US IMPORTS	TRADE BALANCE
1970	8.6	3.5	5.1
1971	9.0	4.1	4.9
1972	9.7	5.8	3.9
1973	13.0	8.0	5.0
1974	20.8	10.9	9.9
1975	26.1	9.6	16.5
1976	28.5	14.0	14.5
1977	29.7	17.0	12.7
1978	35.2	22.5	12.7
1979	45.2	26.4	18.8

SOURCE: U.S. Department of Commerce, U.S. Trade with Major World Areas

Policy Developments

Trade Liberalization

Implementation of the Multilateral Trade Negotiations (MTN) agreements began in 1980. The United States concluded bilateral tariff agreements with 27 developing countries, cutting US tariffs on $15 billion in trade with the developing countries. In addition, tariff concessions negotiated with the developed countries will be extended automatically to the developing countries in accordance with the Most-Favored-Nation principle. These concessions typically will be implemented over an eight year period. The least developed countries, however, are eligible immediately for the full MTN concessions, except in selected sensitive items. This unilateral extension of temporary differential treatment for the poorest countries offers a modest additional impetus to their export expansion and diversification efforts. Currently nearly 80% of the value of US imports from the least developed countries enter the country duty-free. If these countries are to transform and expand their trading sectors substantially, they will require, among other things, additional financial assistance to take advantage of new trading opportunities.

Four codes regulating and restricting the use of non-tariff barriers to trade (subsidies and countervailing measures, antidumping duties, technical barriers to trade or product standards, and import licensing) came into effect on January 1, 1980. Two more codes (on government purchasing and customs valuation) are due to become effective internationally on January 1, 1981. The United States has strongly advocated acceptance of these codes by developing countries. The additional discipline and transparency of national procedures provided by the codes can be particularly important to countries that are trying to break into new markets. While the chief benefits of the codes for the developing countries lie in their general provisions, most of the codes also contain provisions for the differential treatment of developing country signatories, usually in the form of technical assistance in implementing the codes and allowance for a more gradual assumption of full code obligations by the developing countries signatories. Widespread developing country participation in the code committees is the best way to ensure that the codes take appropriate account of the special circumstances of the developing countries. There has been some reluctance on the part of the developing countries to join the codes. Their reluctance derives from a variety of factors--concern that additional discipline will hinder their trade expansion, dissatisfaction with the form or degree of differential treatment for developing countries, and hesitancy to accept the codes unless there is greater Group of 77 consensus on the utility of signing the codes.

Three sectoral agreements were also negotiated in the MTN: agreements on trade in civil aircraft, bovine meat, and dairy products. As with the non-tariff measure codes, the United States continues to encourage strong developing country participation in these agreements.

Finally, the MTN produced a Framework Agreement that provides a firmer legal basis for differential and more favorable trade treatment in trade on behalf of the developing countries. The Agreement also gives explicit recognition to the principle of graduation, whereby individual developing countries will be expected to undertake greater obligations within the trading system as they develop and demonstrate increasing international competitiveness. These references to graduation do not require the developing countries to undertake specific obligations according to a fixed timetable, so the elaboration of graduation practices remains on the agenda for the post-MTN period. Graduation

obviously is in the commercial interests of the United States, but timely graduation on the part of the more advanced developing countries is also in the interest of the least developed countries inasmuch as it ensures the concentration of preferential treatment in trade on those with greatest need.

Generalized System of Preferences

Duty free US imports from the developing countries under the Generalized System of Preferences (GSP) amounted to $6.3 billion in 1979, an increase of more than 20 percent over the previous year. This trade value represented 12.5% of US imports from the non-OPEC developing countries. Approximately 20 percent of US imports of manufactures from beneficiary developing countries enter duty-free under GSP. The major beneficiaries continue to be Taiwan, Korea, Hong Kong, Mexico and Brazil, the sources of two-thirds of the value of GSP duty-free imports in 1979. This concentration of benefits is understandable in light of the product composition of the GSP program, the varying abilities of developing countries to export, and the trade policies pursued by various developing countries.

The GSP list of eligible products consists primarily of the manufactured and semi-manufactured goods that can be produced on an exportable scale by the more advanced developing countries. The list excludes many products that are "sensitive" domestically, but that typically are the most important manufactures during the early stages of a country's industrialization efforts. The pattern of GSP benefits also reflects differences in the economic policies of the developing countries themselves. The major GSP beneficiaries have been models of the outward looking development strategies that rely heavily on international price signals to determine the efficient allocation of resources. As more developing countries make the transition from import substitution trade regimes to outward looking approaches, a broader distribution of GSP benefits can be expected.

The GSP competitive need formula, provides for graduation by removing GSP eligibility from a beneficiary for those products in which the beneficiary's shipments during the previous calendar year exceeded either 50% of total US imports of that item or a given dollar amount, which in 1979 was $41.9 million. In 1979, $3.9 billion in GSP-eligible exports from beneficiary countries were excluded from

duty-free treatment because of competitive need criteria. The pattern of exclusions has been even more concentrated than the pattern of benefits; the top five beneficiaries accounted for 75.4% of the value of competitive need exclusions in 1979.

Several changes in the US GSP scheme became effective in 1980 as a result of the Trade Agreements Act of 1979. First, the OPEC exclusion was modified to permit the extension of GSP to members of the cartel that concluded product-specific MTN bilateral trade agreements with the United States by January 3, 1980 and that refrained from impeding the supply of oil to the United States. Three countries (Indonesia, Venezuela, and Ecuador) satisfied those criteria and became eligible for GSP treatment effective March 30, 1980. A number of other changes in country eligibility were made at the same time; most notably, Zimbabwe and Uganda were designated as beneficiaries, and Ethiopia was removed from the eligible list because of its failure to provide prompt and adequate compensation for nationalized US-owned property. Afghanistan also was removed from GSP eligibility as part of the US response to the Soviet invasion of that country. Second, the Trade Agreements Act granted the President discretionary authority to waive the 50% competitive need limitation for products in which the value of US imports in 1979 did not exceed $1 million. This de minimis criterion will be adjusted annually to reflect the growth in US nominal GNP. During the 1979 annual production review, the de minimis waiver was applied to 260 items accounting for $32.4 million in 1979 imports. The third change in GSP as a result of the Trade Agreements Act was an easing of the provisions that allow qualified regional economic groups to be treated as an individual country for purposes of the GSP.

Several new policies regarding GSP were announced in the Report to the Congress on the First Five Years' Operation of the US GSP, which was submitted by the President on April 17, 1980. The most important of these new policies was the introduction of a more flexible product eligibility policy to complement the existing competitive need in the GSP. The President announced that he would use his authority to "withdraw, suspend, or limit duty-free treatment" to remove beneficiaries from eligibility in products where they are deemed to be competitive in world markets. More specifically, he will extend eligibility to or remove it from products on an individual country basis to the extent that

doing so would encourage a wider distribution of benefits. Furthermore, special efforts will be made during the annual product reviews to extend GSP eligibility to products of particular interest to the poorer developing countries.

As a result of the 1979 product review, fishing reels were removed from GSP eligibility, and 50 items were added to the list of eligible products. The most important items among the latter, in terms of value of beneficiary exports to the United States, are fresh cut flowers, furniture of unspun vegetable fibers (other than rattan), tempered glass, and fluorspar.

US Trade Actions Affecting Developing Countries

As the American economy entered into recession at the start of 1980, many developing countries feared that the United States would succumb to a new wave of protectionism. The record of trade actions during fiscal year 1980, however, indicates that there was not a slide into protectionism with respect to imports from developing countries.

New safeguards measures were taken on canned mushrooms and certain cookware. The major suppliers of mushrooms have been Taiwan, Korea and Hong Kong. Taiwan, Mexico, and Korea have had a substantial interest in the relevant cookware products. In both cases, temporary tariff increases were imposed. Orderly Marketing Arrangements deriving from a previous safeguard action on color television receivers from Korea and Taiwan were renegotiated in June 1980 for an additional two years. Meanwhile, safeguard actions from earlier years remained in effect on clothespins, high carbon ferrochromium, citizen bands radios, and non-rubber footwear. The International Trade Commission (ITC) found that a competing domestic industry was not being injured by less than fair value sales in the case of fresh cut roses, which are supplied primarily by Israel and Colombia. The President denied relief for leather wearing apparel, and an attempted Congressional override was unsuccessful. Countries with major interests in leather wearing apparel include Korea, Taiwan, Hong Kong, Argentina, and Uruguay.

The most highly publicized antidumping case involving a developing country in the past year was that of tomatoes, cucumbers, peppers, eggplant, and squash from Mexico. The Commerce Department terminated the case after a negative finding of sales at less than fair value, but the petitioner is challenging that finding in the US Customs Court. The

antidumping investigation of wire nails from Korea resulted in a negative injury determination. A preliminary finding of injury was made in the antidumping case of menthol from the People's Republic of China, but dumping duties will be imposed only if there is a finding of sales at less than fair value and of injury to a competing domestic industry.

Countervailing duties were imposed during fiscal 1980 on fresh cut roses from Israel, certain pig iron from Brazil, leather shoes and uppers from India and industrial fasteners from India. A previous subsidies case against Indian textiles was reopened but resulted in a negative subsidy finding. An affirmative subsidy finding was made in the case of certain iron-metal castings (primarily manhole covers) from India; an injury finding also was made in that case (an injury test was required because the item was a duty-free item). There was a negative injury finding with regard to textiles from Pakistan; consequently no countervailing duties were imposed. An injury test was required because Pakistan is a signatory to the Subsidies/Countervailing Duties Code and made a satisfactory commitment to the United States regarding the phase-out of its export subsidies.

Textiles and apparel are items of special importance in the trade between developed and developing countries because these products are among the first manufactured goods to be produced by industrializing developing countries and because changing comparative advantage in these industries poses serious adjustment difficulties for developed countries. The United States relies upon the Multifiber Arrangement (MFA) to ensure that the expansion of developing countries trade in textiles and apparel does not disrupt seriously domestic industry. The MFA expires on December 31, 1981, and consideration of an appropriate follow on arrangement is taking place in the GATT Textiles Committee. Currently the United States has bilateral agreements with 21 textile exporting countries, including agreements negotiated during 1979-80 with the Dominican Republic, Costa Rica, Sri Lanka, and the People's Republic of China.

International Commodity Agreements and the Common Fund

For many of the developing countries, the level of foreign exchange earnings in any given year depends primarily upon the returns of a single commodity. Sharp fluctuations in the prices of primary commodities are a continuing,

serious impediment to development planning and implementation in such countries. Accordingly, the United Nations Conference on Trade and Development (UNCTAD) launched the Integrated Program for Commodities (IPC) to consider reforms in international trade in primary commodities. The major elements of the IPC's proposed reforms have been international commodity agreements and the Common Fund.

Agreement on the Common Fund was reached in June 1980, and the United States signed the Articles of Agreement in November 1980. The Fund has been a major element in the North-South dialogue since 1976, and the achievement of an agreement is an important example of North-South cooperation. The Fund will include two separate accounts. The First Account, which will consist of up to $400 million in direct contributions from members, is designed to facilitate the financing of buffer stocks or national stocks of International Commodity Agreements (ICAs) associated with the Fund. The Second Accounts which is to be funded by voluntary contributions, will finance commodity development measures such as marketing assistance and research and development. The United States does not intend to contribute to the Second Account in the foreseeable future.

On January 8, 1980 the United States signed the International Natural Rubber Agreement (INRA), which was the first commodity agreement negotiated entirely under the Integrated Program. The INRA, which entered into force provisionally on October 23, 1980, will rely upon a 550,000 ton buffer stock to stabilize natural rubber prices without disrupting long-term market trends. The United States Senate gave its advice and consent to ratification of the Agreement by a vote of 90-1 on May 22, 1980, and the United States joined the Agreement provisionally, pending Congressional approval of an appropriation to cover US financial obligations under the Agreement. Based upon its share of net imports of natural rubber during the past three years, the US share of total contributions for the natural rubber buffer stock would be 12.4 percent. Members are committed to support a fixed level of rubber stocks, so the actual amount of each member's contribution will depend upon the prevailing price of natural rubber, storage and interest costs, exchange rates, etc. The Administration requested an appropriation of $88 million to cover the probable cost of US participation in the funding of the full buffer stock. Among the developing countries most affected by the Natural Rubber Agreement are the producing countries of Malaysia, Indonesia, Thailand, and Sri Lanka.

During 1980 the United States completed action on its implementing legislation for the International Sugar Agreement and International Coffee Agreement. The United States also participated actively in 1980 in negotiations concerning new commodity agreements for tin and cocoa. The Fifth International Tin Agreement is scheduled to expire in June 1981. Work is proceeding on the establishment of a successor agreement, but differences persist on the appropriate size for the Agreement's buffer stock and on several other issues. Agreement was reached in November 1980 on a new International Cocoa Agreement. The United States, however, declined to accept the Agreement primarily because of objections to the price adjustment mechanism and concern about the adequacy of the financing arrangement. A number of producers, notably the Ivory Coast and Togo, were also unable to join the November consensus.

II.C. INTERNATIONAL FINANCE - THE CHALLENGE OF RECYCLING

As a result of a 125 percent increase in the world market price of oil from the end of 1978 to the first quarter of 1980, oil exporting nations will run a combined current account surplus of around $115 billion in 1980. Globally, this surplus has its counterpart in the importers' combined deficits. Both the industrial and the non-oil developing countries have experienced deterioration in their current account positions; however, the bulk of the oil exporters' surplus has been borne by the non-oil developing countries.

While most non-oil developing countries generally are expected to have current account deficits, the size of their deficits in the last two years has been abnormally large because of a coincidence of dramatic oil price increases, rapid increases in the prices of imported manufactured goods, increased interest payments on rapidly accumulating debt, and slower growth in exports to the industrial economies. The large deficits in turn have been financed by exceptionally large increases in borrowing, not directly from the oil-exporting countries with current account surpluses, but indirectly through international capital markets and the financial institutions where the oil-importing countries place most of their surplus funds.

This financial recycling of surplus funds from oil exporters through international capital markets to non-oil developing countries has allowed the latter group to achieve higher levels of imports, investment, and economic growth than otherwise would have been the case. Indeed, during the period 1973-1979, the weighted average per annum growth of real Gross Domestic Product (GDP) in the non-oil developing world was a relatively buoyant 5.2 percent (compared with 5.9 percent in the period 1967-72). However, growth performance has been uneven, with the low-income developing countries growing at a rate of only 3.8 percent per annum. "Recycling" to meet the financing needs of the non-oil developing countries represents the central challenge of the international financial system at the present time.

Current Account and Financing Trends

Since the four-fold increase in OPEC oil prices in October 1973, there has been a sharp deterioration in the aggregate current account position of the non-oil developing countries, and a resulting sharp increase in their external

financing requirements. The aggregate current account deficit of the non-oil developing countries rose from $11 billion in 1973 to $46 billion in 1975, fell back to $28 billion in 1977, and then reverted to a rising trend, reaching $36 billion in 1978 and $55 billion in 1979. Preliminary estimates for 1980 place the non-oil developing countries deficit at around $68 billion, and the deficit may rise further in 1981. The increase in these deficits was most rapid among the more advanced developing countries which tend to have greater access to private capital markets -- in other words, among the countries able to borrow heavily to finance large deficits instead of having to significantly reduce imports and thus growth.

During the period 1978-1980, the oil import bills of non-oil producing developing countries accounted for over 35 percent of the rise in their total deficit, even though the volume of their oil imports actually fell during this period.

While the increase in oil prices is the single most important factor in the rise in the non-oil developing country deficit, other factors were important as well. Close to 30 percent of the rise in the current account deficit for 1979-80 can be traced to deterioration in the net service balance, resulting in large part from increases in interest payments on foreign debt.

These deficits were financed rather easily during the 1976-1979 period. In fact, external financing was so readily available that the non-oil developing countries were able to accumulate foreign exchange reserves at an unprecedented rate. Also, with loan demand relatively weak in the developed countries, the borrowing terms for external financing from private sources (especially commercial banks) were quite favorable during this period, as measured by the length of maturities and the narrow average spreads over the London Interbank Offer Rate (LIBOR). Because of the shift in borrowing from the more concessional official sources to private sources, and a subsequent rise in the LIBOR rate during 1978-1979, the terms of overall borrowing have now hardened considerably. In addition, financing these huge payment imbalances has led to greater increased indebtedness. (Table II.C.1 contains a summary of financing for the period 1973-1980).

TABLE II.C.1

NON-OIL DEVELOPING COUNTRIES
FINANCING FOR CURRENT ACCOUNT DEFICITS AND RESERVE ACCUMULATION
1973 - 1980
(IN BILLIONS OF US DOLLARS)

	1973	1975	1977	1979	1980
Current Account Deficit (1)	11	46	28	55	68
Increase in Official Reserves	9	-2	12	11	8
Total	21	44	41	67	77
Financed by					
Nondebt-creating flows, net	9	11	14	19	20
Net unrequited transfers received by governments	4	7	8	10	11
SDR allocations, valuation adjustments, etc. (2)	0	-1	1	2	1
Direct Investment, net	4	5	5	7	8
Net external borrowings	11	32	26	47	56
Long-term capital from official sources, net (3)	6	11	14	16	19
Long-term capital from private sources, net	6	15	17	26	27
From financial institutions (3)	4	9	16	17	16
Through bond issues (3)	1	0	4		
Through suppliers credits (3)	0	1	2	9	11
Other sources (4)	2	4	-4		
Use of reserve related credit facilities, net (5)	0	2	1	1	2
Other short term borrowing, net	0	8	-1	9	
Residual errors and omissions (6)	-1	-4	-5	-5	9

(1) Net total of balance of goods, services, and private transfers, as defined for Balance of Payments Yearbook purposes (with sign reversed).

(2) Financing through changes in net debt positions (net borrowing, less net accumulation - or plus net liquidation - of official reserve assets).

(3) Public and publicly guaranteed borrowing only.

(4) Includes errors and residuals that arise from the mismatching of data taken from creditors and debtor records.

(5) Comprises use of Fund credit and short term borrowing by monetary authorities from other monetary authorities.

(6) Errors and omissions in reported balance of payments statements for individual countries, plus gold monetization and minor omissions in coverage.

SOURCE: IMF Annual Report, for 1980

For the non-oil developing countries, rapidly increasing external financing came mainly through substantial increases in borrowing. It also came through increased inflows of funds that do not create debt (official grants, direct private investment, and SDR allocations). From 1973-1979, (net) nondebt-creating financing increased from $9 billion to $19 billion while (net) debt-creating financing (net borrowing) grew from $12 billion to $47 billion. Thus, the relative importance of nondebt-creating financing in total external financing slipped from 44 percent in 1973 to 29 percent in 1979.1/

Shifts in the Composition of (Net) Borrowing

During the decade of the 1970s, significant shifts also occurred in the source of financing. While long-term net borrowing from both official and private sources continued to grow, borrowing from the latter source grew much more rapidly. In 1974, net borrowing from official and private sources each equaled about $9.6 billion. By 1979, net borrowing from official sources equaled $15.9 billion while net borrowing from private sources equaled $26.2 billion.

Within official lending, there has been a decline in the rate of growth of net borrowing on concessional terms from countries which are Development Assistance Committee (DAC) members. Many of the low income non-oil developing countries rely almost exclusively on official financing, and its relatively slow growth in recent years has been a constraint on the development efforts of these countries. At the same time, net borrowing from multilateral banks has been increasing at a relatively more rapid rate. Non-oil developing country debt to international institutions such as the World Bank grew over the period of 1973-79 at a compound average annual rate of 22 percent. Debt to foreign governments grew at an average annual rate of 14 percent. And, within the total debt to foreign governments, concessional debt grew by under 13 percent per annum while debt arising from official export credits grew by over 22 percent per annum.

1/ Source: IMF Annual Report for 1980

With respect to borrowing from private sources, there was a shift away from private suppliers' credit toward borrowing from private financial markets. Net capital inflows from the private banking system have been by far the most buoyant element in non-oil developing countries' external borrowing (official and private) throughout the decade of the 1970s. Consequently, between 1973 and 1979 the share of publicly-guaranteed debt to private banks relative to total guaranteed non-oil developing country debt expanded from 17 percent to 38 percent; private banks became the largest single source of public and publicly guaranteed medium-and long-term financing to non-oil developing countries.

The Role of Private Banks in Developing Country Finance

The above statistics actually understate the importance of private banks in financing recent developing country deficits. Private banks are the main source of financing for non guaranteed private sector borrowing in the non-oil developing countries. The banks are the main source of financing for public and publicly-guaranteed trade credits which carry original maturities of less than one year. Private foreign bank claims (of banks inside the reporting system of the Bank for International Settlements) on the non-oil developing countries totalled over $151 billion by 2/ the end of 1979, compared to $117 billion at the end of 1978.

While net financial flows from the private banks have been the most important element in total non-oil developing country net borrowing during this period, bank lending has tended to be highly concentrated among relatively few countries. Commercial bank claims on Brazil, Mexico, Argentina, and South Korea together accounted for over 60 percent of all outstanding bank claims on non-oil developing countries at the end of 1979.

2/ Source: Bank for International Settlements. This includes loans of all muturity ranges that are public, publicly guaranteed, and private non-guaranteed.

Role of US Banks in Lending to Developing Countries

US banks hold about 40% of total private bank claims on non-oil developing countries . They extended over $11 billion in net new loans from June 1979 to June 1980, an increase of over 20 percent in loans outstanding. The largest flows during this period were to Argentina, Mexico, and South Korea (over $2 billion each), but Brazil remains the largest borrower in terms of outstanding credit ($14 billion at the end of June 1980).

Developing Country Recourse to International Bond Markets

Bond finance accounts for a small fraction of developing country external financing and is available to only a small number of them since investors prefer established names and, unlike large banks, are not equipped to assess country risk. During the period 1976-1979, non-oil developing countries issued bonds totalling $11 billion, while residents of OECD countries issued over $98 billion. The total raised by developing countries dropped in 1979 and is running at an even lower level in 1980. Issues by Brazil, historically the principal develoloping country borrower (along with Mexico) in this market, have dropped off sharply. Since 1977, the non-oil developing country share of the world bond market has declined in every year.

Implication of the Shift in Financing Sources

The dramatic shift from official to private sources of financing for the non-oil developing countries has resulted in a considerable hardening of the terms of borrowing, i.e., shorter average maturities and considerably higher interest rates. The high interest rates of recent years are fully reflected in new loans from private sources. In addition, a large share of the outstanding stock of loans from private financial institutions is subject to floating interest rates that are linked to changes in the LIBOR.

The combined effect of the rapid accumulation of non-oil developing country external debt and the sharp relative shift toward reliance on private bank finance has greatly increased the non-oil developing countries' debt service obligations. This is only partly illustrated in the 290% rise in the nominal value of developing country aggregate debt service payments between 1973 and 1979, and the associated approximately 28% rise in their ratio of debt service

payments to exports of goods and services. This is because the amortization component of debt service obligations for much of the debt contracted in the latter part of the 1970s and in 1980 has yet to show up in statistics because of grace periods on amortization payments. At the same time, the relatively rapid expansion in developing country exports has prevented a sharper rise in the overall debt service ratio.

Some countries have already experienced severe problems servicing their debt. In 1980, six countries had recourse to debt relief arrangements negotiated with their official creditors. Several others made arrangements with private banks to make their debt servicing obligations more manageable; several more were in the process of negotiating similar arrangements with official or private creditors. While private banks do not have large exposures in all these countries, the recent trends discourage private banks from continuing to expand lending to the non-oil developing countries.

The recycling process has been a leading subject of international economic discussions during the past year -- most notably in the Executive Boards of the International Monetary Fund (IMF) and the World Bank (IBRD), and in the Task Force on Non-Concessional Flows of the IBRD/IMF Development Committee. These discussions have emphasized the importance of adjustment efforts by all oil importing countries in order to quickly reestablish a sustainable pattern of external balances and financing which is consistent with satisfactory economic growth. In addition, a consensus has been reached on having the IBRD and the IMF play an increasing role in this process.

In response, the IBRD has instituted a non-project program of "Structural Adjustment Lending" and is encouraging greater energy self-sufficiency among non-oil developing countries . In particular, the IBRD, which is by far the largest public source of support for energy development, plans to provide $13 billion in loans for energy projects through its energy lending program for FY 1981-85 and is exploring the possibility of establishing a new energy affiliate that would provide an additional $12 billion in lending during the same period. The lending activities of the IBRD are described in greater detail in Section IV.A below. The following is a description of the adjustment financing role of the IMF.

Role of the IMF in the Current Economic Situation

While private financial institutions are providing the bulk of the resources and will continue to undertake the major responsibility for intermediate financing between borrowers and lenders, they may not be able or willing to do the entire job. Consequently, the IMF has taken the following measures during the past year:

- -- Access to IMF resources was increased substantially in recognition of larger financing requirements. In exceptional circumstances, members are now able to obtain up to a cumulative total of 600 percent of their newly increased quota, substantially more than the amount that could be obtained only a few years ago.

- -- The period of adjustment associated with IMF-supported programs was increased, reflecting the more difficult longer-term structural changes required by the new energy realities. The IMF is now prepared to enter into successive one year programs covering three years, which will facilitate more gradual, less disruptive, and thus more politically acceptable adjustment efforts.

- -- Greater emphasis is being placed on supply side considerations, particularly the expansion of savings, investment, exports, and import substitution efforts needed to adjust to higher relative energy costs. At the same time, the Fund will continue to focus on macroeconomic demand management policies in its adjustment programs.

- -- An interest subsidy is being established for low-income developing countries to reduce the cost of loans from the Supplementary Financing Facility by up to three percentage points. The subsidy will be financed primarily from repayments of Trust Fund loans (the Trust Fund will make its final loan disbursements in January 1981) plus voluntary contributions from member countries.

Reflecting these new policies, the level of IMF financing has increased substantially. Drawings on the IMF's more conditional resources nearly doubled from 1979 to 1980. The Fund has standby arrangements in effect with 38 developing countries as of September 30, 1980.

The Debt-Servicing Capacity of Developing Countries Assisted by the United States

The debt situtations of US assisted developing countries vary greatly from country to country. Some are in such a strong payments position that ' they are net creditors vis-a-vis the United States (e.g., Saudi Arabia). The vast majority of developing countries are meeting their external debt-servicing obligations on schedule. A few are experiencing severe balance of payments difficulties and have sought debt relief. There are no simple indicators of the debt-servicing capacity of a developing country. Some countries have very high ratios of debt-service payments to exports -- above 50 percent -- and are considered creditworthy. Others with relatively low debt-service ratios have accumulated very large payments arrears. In general, the capacity of developing countries to service external debt is growing because their economies are growing and their export earnings are rising; however, borrowing by these countries has grown even more rapidly in recent years. Overall, current trends suggest that the oil-importing developing countries will have greater difficulty servicing external debt in the first half of the 1980s than they did in the 1970s. This difficulty may be manifested not only in payment interruptions but also in slower rates of economic growth.

There is no single source of comprehensive information about the external indebtedness of the non-oil developing countries. The Debtor Reporting System (DRS) of the World Bank provides detailed information about medium-term and long-term public and publicly-guaranteed external debt for 97 developing countries and estimates of private non-guaranteed debt for the aggregate developing world since 1970, and for 44 individual developing countries since 1973. The main components of developing country debt which are not covered in the DRS and are excluded from this report analysis are: (a) certain military debt which is not reported or disclosed; (b) repayment obligations vis-a-vis the IMF which are excluded from most debt analyses because of their monetary character; and (c) short-term debt, both public and private.

The amount of public and publicly-guaranteed external debt (disbursed) with original maturities greater than one year rose from $76 billion to $255 billion between 1973 and 1979 for the 92 non-oil developing countries covered in the DRS. Compounded annually, this corresponds to an average annual rate of increase of 22 percent. In addition,

estimated private non-guaranteed debt rose from $24 billion to $68 billion during the same period, for an average annual rate of increase of 19 percent. In 1979, eleven non-oil developing countries that are major exporters of manufactures accounted for the largest share of total debt -- about 53 percent; Brazil alone accounted for 20 percent. (See Table II.C.2) In general, the countries in this group have the capacity to service large amounts of external debt. The non-oil developing countries with the lowest per capita incomes account for a relatively small share of total debt; however, their stock of debt is quite high relative to their economic size and capacity to service debt.

During the period 1973-1979, the ratio of external debt[3/] to GDP for non-oil developing countries rose from 18 percent to 24 percent and the ratio of external debt outstanding to exports of goods and services rose from 92 to 101 percent. The latter ratio [4/] rose particularly sharply for the low income developing countries, from 136 percent to 202 percent during the same period.

During the period under review, debt service payments increased from $15 million to $60 million, representing a compounded average annual growth rate of 26 percent compared with a 21 percent annual rate of increase in the total stock of outstanding debt. Debt service payments grew faster than the stock of debt because of the shift toward borrowing from private sources and the higher LIBOR rates on private borrowing that prevailed in the latter part of the period. The trend in the debt service ratio, the ratio of debt service payments (principal plus interest on medium-term and long-term debt) to foreign exchange earnings from exports of goods and services, was distinctly upward for the non-oil developing countries, both for amortization and interest payments. Table II.C.3 provides debt-service ratios for thirty of the non-oil developing countries that have the largest amounts of debts.

3/ Includes public, publicly-guaranteed and private non-guaranteed debt.

4/ Includes only public and publicly-guaranteed debt.

TABLE II.C.2

MAJOR DEBTOR COUNTRIES AMONG THE NON-OIL DEVELOPING COUNTRIES

AT THE END OF 1979*

Country	Subgroup	TOTAL DEBT ($ billion)
Brazil	(M.M.)	$51.8
Mexico	(N.E.)	34.0
Spain	(N.I.)	19.5
India	(M.M.)	15.7
Korea	(M.M.)	15.1
Yugoslavia	(M.M.)	13.6
Argentina	(M.M.)	12.0
Israel	(M.M.)	11.6
Turkey	(N.I.)	11.6
Egypt	(N.E.)	11.3
Pakistan	(L)	8.0
Chile	(N.I.)	7.5
Peru	(N.E.)	7.4
Greece	(M.M.)	7.3
Philippines	(N.I.)	7.3
Morocco	(N.I.)	7.1
Portugal	(M.M.)	5.3
Zaire	(L)	4.1
Ivory Coast	(N.I.)	3.9
Thailand	(N.I.)	3.9
Colombia	(N.I.)	3.9
Malaysia	(N.E.)	3.4
Taiwan	(N.I.)	3.3
Tunisia	(N.E.)	3.3

* Medium and long-term public and private non-guaranteed debt, disbursed for all countries except for Egypt (public debt only). Countries are listed in rank order. Letters in parentheses denote the follow subgroup within the non-oil LDCS: Net oil exporters (N.E.); major exporters of manufactures (M.M.); low income countries (L); and other net oil importers (N.I.)

TABLE IV.C.3

MATRIX OF DEBT-SERVICE RATIOS FOR 30 NON-OIL DEVELOPING COUNTRIES, 1979*

DEBT-SERVICE RATIO / SUBGROUP	0 - 10%	11 - 20%	21 - 30%	above 31%
NET OIL EXPORTERS	MALAYSIA 5% TRINIDAD & TOBAGO 2%	EYGPT 16% TUNISIA 16%	BOLIVIA 30%	MEXICO 71%
MAJOR EXPORTERS OF MANUFACTURES	SINGAPORE 2%	ISRAEL 16%	ARGENTINA 26%	BRAZIL (61%)
LOW INCOME DEVELOPING COUNTRIES		BANGLADESH 11% PAKISTAN 12% KENYA 15%	BURMA 25%	SUDAN 33%
OTHER NET OIL EXPORTERS	GHANA 5% GUATEMALA 5% TAIWAN 4%	COLOMBIA 14% THAILAND 14% TURKEY 14%	PHILIPPINES 23% DOMINICAN REPUBLIC 23%	COSTA RICA 35% CHILE 39%

*Debt-service ratio computed by dividing total public and private non-guaranteed debt service from 1980 World Debt Tables (IBRD) by sum of "merchandise: export f.o.b." and "other goods, services and income: credit" from International Financial Statistics, Volume 33, No. 12 (IMF).

While the debt service ratio is a highly imperfect measure of a country's debt service burden, this upward trend is a matter of concern for two reasons. First, if non-oil developing countries export earnings grow relatively slowly in the next several years -- as indicated in various projections -- debt service payments will preempt a larger share of the foreign exchange available to the non-oil developing countries. This means that these countries will have less foreign exchange to purchase capital good imports necessary to expand their productive capacity. Second, the low-income developing countries, which generally are least able to bear heavy debt servicing burdens, experienced the sharpest rise in their aggregate debt service ratio over the 1973-1979 period of all non-oil developing country subgroups. As a result, the low-income developing countries now have an aggregate debt service ratio which is well above average for the non-oil developing countries. 5/

The US Government Stake

The US Government is the single largest source of credit to the developing countries, after the World Bank group. As of September 30, 1979, 96 developing countries (both non-oil and oil exporting) owed the United States $41.8 billion. This indebtedness is highly concentrated in seven countries which together account for more than half the total: Israel ($6.1 billion), India ($3.4 million); Egypt ($3 billion); Pakistan ($2.6 billion); Brazil ($2.3 billion), Turkey ($2.3 billion) and Indonesia ($2.2 billion). Among this group of countries, only Turkey is now experiencing serious debt servicing problems.

Debt Rescheduling Operations in 1980

While the vast majority of developing countries were able to meet their external debt service obligations in 1980, a small group of countries were compelled to seek debt relief from official or private creditors, or both. In responding

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5/ The other non-oil developing country subgroup that has an above average debt service ratio is the net oil exporters whose economic prospects are, on the whole, relatively better than the non-oil developing countries as a group.

to requests, the US Government adhered to the debt-relief policy formally adopted in 1978. There are four key elements to this policy: (a) such relief is an extraordinary measure taken when a debtor country faces a situation of imminent default; (b) the US Government will only participate in debt relief negotiations after the debtor country has adopted an economic stablization program--normally supported by the IMF -- that addresses its underlying problems; (c) the debt rescheduling negotiations should be carried out in a multilateral context to ensure equitable burden-sharing among official creditors; and (d) the debtor country receiving debt relief must not discriminate against the United States and other participating governments in favor of other categories of creditors.

During 1980 the United States participated in three multilateral debt rescheduling operations. The debtor countries involved were Sierra Leone, Turkey, and Liberia.

The United States and six other official creditors met in Paris in February 1980, to consider Sierra Leone's request for debt relief. The amounts rescheduled by creditors included arrears as of July 1, 1979, and certain debt service obligations falling due during the period of July 1, 1979 to October 31, 1980, totalling $18.4 million. In addition, creditors agreed to extend the rescheduling to obligations falling due during the period Novmber 1, 1980 to December 31, 1981, contingent on Sierra Leone's obtaining access to additional IMF resources under a standby arrangement.

The repayment period for rescheduled principal and interest was 12 years, including a grace period of 6 years. The United States did not conclude a bilateral agreement with Sierra Leone because the amount of the payments subject to rescheduling falling due in each of the two consolidation periods was expected to be less than the minimum amount established in the multilateral agreement.

For the third consecutive year, Turkey's principal official creditors met in Paris on June 17, 18, and 19, and again on July 22 and 23, 1980, to consider a Turkish request for debt relief. The creditors agreed to an unusually comprehensive multilateral rescheduling agreement. The terms of the rescheduling were justified by the severe economic and financial difficulties facing the country, and by the far-reaching economic recovery program undertaken by a new Turkish government in January 1980 and supported by an IMF

standby agreement approved in June 1980. The creditors agreed to reorganize 90 percent of debt service payments falling due between July 1, 1980 and June 30, 1981. Conditioned upon Turkey's continued implementation of its three year IMF agreement, the creditors also agreed to reschedule on roughly similar terms debt service payments falling due between July 1, 1981 and June 30, 1982 and between July 1, 1982 and June 30, 1983. The repayment period on amounts rescheduled is 10 years, including 5 years of grace. Arrears, as of June 30, 1980, on principal and interest payments relating to both short and long-term debt were also rescheduled. In light of the extreme debt service burden, the creditors also agreed to provide debt relief on similar terms for certain arrears and payments falling due under the 1978 and 1979 rescheduling agreements.

Representatives of the United States and seven other creditors met in Paris (on December 18-19, 1980) to negotiate a debt relief arrangement with the Government of Liberia. The creditor countries agreed to provide debt relief with respect to 90 percent of the payments of principal and interest due and unpaid between July 1, 1980 and December 31, 1981. The amount of debt relief granted by the participating countries was about $16 million. The Government of Liberia agreed to repay the amount in nine years including a grace period of four years.

II.D. PRIVATE DIRECT INVESTMENT

US Investment Policy

Investment flows to developing countries are an important aspect of development policy because private capital transfers substantially supplement other forms of resource transfer. Moreover, such transfers can contribute to entirely different aspects of development than those provided by official aid, including expansion of industry and employment, technology acquisition, and other benefits derived from the output of final goods and services, particularly in the resource, industrial, and service sectors.

The fundamental tenet underlying US policy is that international investment will generally result in the most efficient allocation of economic resources if it is allowed to flow according to market forces. However, the US Government provides appropriate assistance to those developing countries wishing to attract foreign direct investment in an attempt to assist them in accelerating their development. Assistance in this area is provided on a bilateral basis through the Overseas Private Investment Corporation (OPIC), a US Government corporation, and on a multilateral basis through the International Finance Corporation (IFC), a World Bank affiliate. OPIC provides political risk insurance and financing to US investors in developing countries. The IFC makes loan and equity investments in developing country projects, often serving as a catalyst in securing diverse sources of project finance. (More information on the IFC and OPIC is provided in sections IV.A and IV.D, respectively.)

US Direct Investment

The US private direct investment position abroad has increased 155 percent from a total of $75.5 billion in 1970 to $192.6 billion in 1979. Investment in developing countries increased from $19.2 billion in 1970 to $47.8 billion in 1979 (149 percent) while investment in developing countries increased from $51.8 billion to $137.9 billion (166 percent) over the same period.

In 1979 eight developing countries (Argentina, Brazil, Mexico, Panama, Peru, Venezuela, Indonesia, and Philippines) accounted for $23.6 billion of direct investment in developing countries (62.4 percent). (This excludes tax havens in the Caribbean.) Investment in Argentina, Brazil, Mexico, and Venezuela accounted for 60 percent of US investment in the manufacturing sector in developing countries.

During the 1970-79 period, US investment, excluding investment in the petroleum sector, grew at an average annual rate of 29 percent in developing countries while it grew at a rate of 16 percent in developed countries.

The annual growth in US direct investment abroad has been dominated by retained earnings of foreign affiliates rather than new capital transfers from the United States. For the 1972-78 period, retained earnings from all investments supplied over 71 percent of the total growth; in developing countries, retained earnings contributed 50 percent of the total growth.

Since the rate of growth of US direct investment abroad depends on a combination of domestic and international economic and political factors, future increases are difficult to predict. Given a favorable environment, US direct investment can be expected to continue to grow.

Foreign Direct Investment by Other Countries

There have been significant developments in the type, source, and location of international direct investment by other developed countries over the past decade.

Other countries' experiences are similar to that of the United States, in that:

-- there has been a rapid increase of foreign direct investment, both in absolute terms and in comparison to other economic aggregates; and,

-- there is a concentration of foreign direct investment in a relatively small number of developing countries.

In addition, United States and developed country experience shows:

- -- changes in the forms and financing of investment (i.e., investment for regional or worldwide markets rather than only local markets, raw materials processing in or near the source country, and joint ventures);
- -- a growing interest by small and medium size firms in investing abroad;
- -- a shift away from investment in the extractive sector towards more investment in the service sector; and,
- -- interest in new (i.e., non-equity) modes of foreign direct investments.

Some of the more advanced of the developing countries are playing an increased role as suppliers of foreign direct investment. India, Korea, Mexico, Brazil, Argentina, and the Philippines are among the most active. As these and other developing countries gain greater familiarity with overseas investment, attitudes as hosts to foreign direct investment could become more favorable.

Bilateral Investment Treaties

In response to interest in the Congress and the business community and influenced by the experience of other developed countries, the United States has recently been considering initiating a bilateral investment treaty program. The focus of a bilateral investment treaty is substantially narrower than a treaty of friendship, commerce, and navigation (FCN) in that the bilateral investment treaty is directed solely at investment matters. The bilateral investment treaty would be offered to selected developing countries as a means to provide a more stable climate for US private direct investment. The United States is considering beginning an active program of negotiation in 1981.

The UN Code of Conduct

The UN Commission on Transnational Corporations, meeting in Lima, Peru in 1976, agreed to give "highest priority" among its various tasks to the formulation of a Code of Conduct. For this, the Commission established an Intergovernmental Working Group (IGWG) which began its work in 1977. Since then work on the Code has progressed slowly, reflecting the complexity of the issues involved.

During the first half of 1980, the IGWG began the actual drafting of code paragraphs. It completed work on about 25 provisions which essentially concern the activities of transnational corporations. Some provisions are heavily controversial; others are less so. Agreement eluded the IGWG altogether on a few provisions; and consideration of contentious paragraphs including the role of home states in protecting the interests of investors was simply deferred.

As the IGWG could not complete its work on the draft Code, the Commission, at its sixth session June 23-July 4 in Mexico City, recommended to the UN Economic and Social Council (ECOSOC) that the IGWG be authorized to hold three more sessions in order to complete work on the Code before the Commission's seventh session in June 1981. The Commission also approved a resolution affirming that the code should include, inter alia, provisions relating to the treatment of transnational corporations, jurisdiction, and other matters (i.e., nationalization and compensation). This recommendation is significant in that it is the first time the Group of 77 and the Eastern European countries have agreed that the code should include provisions on the treatment by host governments of transnational corporations. ECOSOC adopted both recommendations at its second regular (summer) session.

The United States believes that the proposed code should:

- be voluntary in nature, though a broad range of consultative mechanisms may be possible;
- be appropriately balanced in reference to the responsibilities of governments and firms;
- not discrimate between or multinational enterprises and domestic firms;

-- provide that transnational corporations be given equitable treatment in accordance with international law;

-- apply to all enterprises whether their ownership is private, government, or mixed; and,

-- be negotiated independently of the Illicit Payments Treaty in recognition of the different stages of preparation, nature, and coverage.

In October, the IGWG met and drafted provisions covering consumer protection, the environment and information disclosure to the public.

II.E. NORTH-SOUTH DIALOGUE -- DEFINING AN AGENDA FOR THE 80s

Background

The North-South dialogue is a term used to describe a vast range of discussions and negotiations focused on proposals made by developed (the North) and developing (the South) countries in many multilateral forums, primarily within the United Nations system. This dialogue represents the main diplomatic process by which the world community -- rich and poor countries alike -- is trying to adapt the global economic system to its changing needs and to challenging new economic conditions. It should be viewed against the background of the work of the specialized multilateral institutions and the US bilateral relationship with developing countries.

The dialogue has a distinct bipolar character with, in essence, the industrial countries of the OECD on one side and developing countries on the other. (The Soviet Union and its allies have stayed aloof, responding to the developing countries only occasionally when they have seen opportunities to "score points" at the expense of the West with no cost to themselves. The communist countries respond to the growing pressures to be more responsive to the Summit problems with the claim that those problems are the result of colonialism and capitalism and, therefore, are the sole responsibility of the West.)

The South -- the developing countries -- are extremely diverse. They include not only the world's poorest countries, like Bangladesh, but also the world's richest, the members of the Organization of Petroleum Exporting Countries (OPEC). There are doctrinaire Marxist states like Cuba and thriving bastions of laissez-faire economics like Singapore. Political alignments are equally diverse, but membership in the Non Aligned Movement is widespread among the countries of the South. Their common bond is the conviction that their strength in negotiating with the North lies in their unity. So far, OPEC has used this perception to deflect action against it by developing countries badly hit by oil price increases, arguing that they can wield their "oil weapon" for the benefit of all developing countries. This argument, however, is wearing thin. Recent oil price increases have further diminished the development prospects of non-oil

producing developing countries but much larger OPEC country surpluses have not resulted in substantially expanded OPEC assistance. Thus, some non-oil developing countries are now arguing, sometimes openly in UN fora, for greater and more open discussion of energy issues as they relate to development.

The organizational mechanism that orchestrates the unity among the developing countries is the so called Group of 77--actually some 115 developing countries. The Group of 77 operates, in effect, as a developing country caucus in the UN system. The need to maintain this unity often leads some developing countries into opposition to the United States in multilateral organizations despite close bilateral relations.

The North consists of the industrial, market economies -- all members of the Organization for Economic Cooperation and Development (OECD). Despite their smaller number, their approaches to the North-South dialogue are only slightly less diverse than the developing countries, although they share common perceptions of the need to maintain an open and efficient global economic system. The Nordic countries stand out in their strong desire to accommodate the aspirations of the developing countries. Recently, the United States and Britain have appeared to assume the other end of the spectrum with relatively low levels of development assistance, their questions about the practicality of some Southern proposals, and general insistence that any agreements be well defined. During most of the 1970s, the developed countries were disinclined to take a more confrontational tone by operating as a bloc. Events of the past few years, however, have drawn the OECD countries closer together and made them more willing to present their common views on how the global system could be improved for the mutual benefit of all.

Conflicts in the North-South dialogue arise from fundamentally different conceptions of the participants. The developing countries allege that the global system contains basic inequities which have perpetuated a "state of dependency." They see the dialogue as a vehicle to correct those inequities. Other demands, including those for freer trade or increased development assistance, do not involve systemic change, but pose difficulties for the North, especially under current economic conditions.

The United States -- and, to a greater or lesser extent, all other OECD countries -- recognizes that there is an ever increasing interdependence among states within the international economic system and that the economic development of the developing countries strengthens that system. The United States believes that nations of the world derive great benefits from participating in the system, including gains from trade, access to resources and markets, and the greater political stability that expanded economic interaction tends to foster. The United States is trying to use the North-South dialogue to preserve the benefits of the global system and to correct its shortcomings in a way that is beneficial to all through a deliberately considered evaluation of that system.

Issues

Issues in North-South relations are myriad, encompassing nearly every facet of international relations. Given the diversity of the Group of 77, it is difficult to determine clear priorities within this array of issues.

The dialogue can be seen, however, in terms of two broad, but overlapping, themes: trade and finance. Within each area there are both substantive and institutional issues. The two areas are clearly linked because financial flows are sought to provide the payment for imports of goods and services needed not only to meet the basic human needs of developing country populations, but also to provide an impetus to development and eventual self-sustaining growth.

Developing countries also seek access to world markets for their raw materials and semi-processed and manufactured goods. Commodities, and the special problems of stabilization of commodity markets, have been another major question in the trade area. At issue in the North-South debate on trade are demands for a revision of the rules of the international trading system to provide permanent preferential advantage for the developing countries. These include the movement of industries from the developed to developing countries in order to accelerate industrialization in the Third World.

The financing theme begins with the basic desire of all developing countries to see larger transfers of resources from the rich countries on favorable terms and without conditions regarding their use. This theme has been given great prominence by the adverse effects of recent oil price increases. Involved are questions concerning concessional financing, official non-concessional flows, recycling of oil producer surpluses, balance of payments financing, debt issues, and private financing including investment. The developing countries seek not only developed country commitments to major increases in resources, but also a restructuring of the world monetary system that would favor developing countries in both operation and decision-making. They would like to play a much larger role in the management of the two key international financial institutions (the International Monetary Fund and the World Bank) even though in most individual cases their relative economic importance in the world economy would not warrant it.

The United States strives to maintain an open, expanding non-discriminatory world trading system and to assure a sound and stable international monetary system. Together these policies should provide an environment conducive to the rapid growth and development of the developing countries. They are supplemented, of course, by an active development assistance program for the benefit of the poorer developing countries.

The United States and other Western developed countries view the claims of the developing countries seriously and actively participate in the discussions of these issues. They do not accept, however, the argument that the existing system must be discarded. US policy has been to try to move negotiations away from fruitless debate on the system, and focus instead on specific issues where progress in possible.

Major Events in 1980

Global Negotiations

A deteriorating world economy and dissension among the developing countries over energy and other issues which emerged at the United Nations Conference on Trade and Development (UNCTAD V) led them to call for a round of global negotiations. A resolution calling for these negotiations was formally adopted in 1979 at the 34th Session of the United Nations General Assembly (UNGA) with the negotiations to be launched by a previously planned Special Session of the United Nations scheduled for August 25-September 5, 1980 in New York.

At the 34th Session, Secretary of State Cyrus Vance stated that the United States would participate actively in the preparatory work to produce a plan to conduct such global negotiations effectively. He noted that priority should be given to issues on which concrete results were possible and duplication of work already being conducted in existing institutions should be avoided.

During the preparatory work on global negotiations, the United States urged focusing negotiations initially on topics of immediate concern and where consensus on action seems possible. The United States suggested an early action program stressing four such subjects:

-- Assistance for exploration and development of energy resources in energy deficient developing countries.

-- A worldwide trade pledge to resist protectionist pressures and to promote positive adjustment.

-- Improved world food security.

-- Recycling of payments surpluses.

The developing countries submitted a long and detailed agenda covering most topics which have been discussed over the past years in the North-South arena. Negotiations on the agenda for global negotiations are still not completed. The United States holds strongly to the view that a neutrally worded agenda provides the best basis for successful negotiations.

Problems of procedures, not agenda, however, dominated global negotiations discussions at the Special Session. The basic issue was concern over the autonomy of specialized agencies such as the International Monetary Fund, the World Bank, the General Agreement on Tariffs and Trade (GATT), and UNCTAD. The United States holds that issues falling within the competence of specialized agencies must be discussed calling for these negotiations was formally adopted in 1979 at the 34th Sessionwithin those agencies, not the global negotiations. Results from such negotiations could be reported back to the central body, but the central body could not renegotiate those results. No accord on procedural ground rules has yet been achieved.

At the end of the Special Session the United States, along with West Germany and the United Kingdom, sought stronger assurances regarding protection of the integrity of the specialized agencies. A number of other industrialized nations, and some developing ones, agreed with the United States on the substantive issue of protecting the specialized fora but were willing to accept more ambiguous procedural language and take a stronger position once substantive discussions within the global negotiations began. The United States held that, rather than deal with the issue a number of times next year, a clear consensus should be obtained first on the role the central body would play relative to the specialized agencies. Agreement not having been reached, the subject of global negotiations was carried over to the 35th Session of the United Nations, which began September 16.

The other major agenda item at the Special Session was the International Development Strategy (IDS) for the 1980s. The IDS -- 180 paragraphs long -- was accepted by consensus at the Special Session and was adopted December 5 at the regular session of the UN General Assembly (UNGA). The IDS is intended to provide guidelines on development priorities and issues for the world community during the 1980s, the Third United Nations Development Decade. Preparatory work on the IDS was underway for almost two years before the Special Session opened. The United States sought to produce an ambitious, yet realistic document that addressed global economic issues and placed primary responsibility for development on the developing countries, but also recognized the supporting role the developed countries must play. The developing countries focused on increasing aid flows and obtaining structural changes in the international economic system.

The IDS contains much useful language on social development; the importance of accelerated action to increase food production, improve nutrition and enhance food security in developing countries; the need for non-concessional as well as concessional assistance, from all sources, including oil exporting developing countries; and the need to concentrate assistance on the poorest of the developing countries. Its review and appraisal section calls for reviews by the UN regional commissions of the "major aspects of development in the evolving development experiences in their regions." This is the closest the developing countries have ever come to permitting an international review of their development and may lead to a productive sharing of national development experiences.

The document's principal weaknesses from the US point of view are the failure to give adequate treatment to the importance of energy in development, an overly ambitious growth target (seven percent per annum) for developing countries in the 1980s, and donor country official development assistance targets of 0.7 percent of gross national product. In the trade area, the IDS demands permanent preferential treatment for developing countries and redeployment of industries to developing countries to accelerate their industrialization. Achieving these IDS goals would involve greater government intervention in the market than the US economic system accepts. IDS language also places the burden for increasing developing countries trade entirely on the developed countries. During the Special Session, the United States signaled its intent to reserve on the 0.7 percent target as well as some other trade, transportation, and monetary paragraphs. These reservations were made during final consideration of the IDS in the thirty-fifth session of the United Nations General Assembly.

Brandt Commission Report

The Brandt Commission Report, the result of more than two years of work by a group of 18 prominent individuals from developed and developing countries and headed by former West German Chancellor, Willy Brandt was released in February 1980 and has received considerable publicity.

The report reviews and makes recommendations on a wide range of North-South economic issues. The overall message of the Report is that:

-- it is in the interest of both developed and developing countries to work together to promote development;

-- all states have responsibilities to contribute to a healthy global economy;

-- reforms in policies and institutions are needed and should be of a sort that will make all better off;

-- a set of priorities is needed, if progressive change is to be achieved in a timely fashion.

The Report makes many specific recommendations, both new and old, with which the United States can readily agree and others which it considers appears unrealistic or unreasonable. Among the recommendations are the following:

-- An "Emergency Program for 1980-85" which emphasizes food, energy, financial recycling, and major reforms in the economic system.

-- A new approach to development financing that would make assistance universal and at least partially automatic.

-- A much larger role for developing countries in the management of international financial institutions such as the IBRD and the IMF.

-- A North-South summit involving leaders of major developing and developed states, the objective being to provide increased political impetus to the resolution of North-South issues.

A report on an interagency review of the Brandt Commission recommendations was submitted to President Carter in September 1980.

Austria and Mexico have strongly promoted the Brandt Commission recommendation for holding a North-South summit ("mini-summit") to promote improved North-South relations; most developed countries and numerous developing countries have indicated they would participate in such a summit. A preparatory meeting of a small number of countries took place November 7 in Vienna; a follow-up meeting is scheduled for March 1981. If a summit takes place, it is most likely to occur in June 1981.

The United States has not yet indicated whether it will participate in the proposed summit. The likelihood of significant, substantive progress will be a prime US consideration in making a final decison. This, in turn, will depend to a large degree on the amount of progress made in ongoing North-South discussions such as global negotiations.

Preparation for UN Conference on Least Developed Countries (LLDCs)

At UNCTAD V the United States joined the consensus on Resolution 122(v) which called for a significant new assistance effort: a Comprehensive New Program of Action for the LLDCs consisting of two phases, an Immediate Action Program (1979-81) and a Substantial New Program of Action for the 1980s. These programs were further supported by a UN General Assembly Resolution calling for a UN Conference on the Least Developed Countries, to be held in 1981, which would adopt and support the Substantial New Program of Action for the 1980s. Preparatory meetings for the Conference took place in Geneva, February 4-16 and October 9-17. The meetings reviewed progress under the Immediate Action Program, determined venue and dates for the Conference (Paris - September 1981), and also decided on a number of preparatory steps.

The United States supports increased efforts to assist the least developed countries and a successful UN Conference on LLDCs. To that end the United States is trying to ensure that Conference preparations are effective and realistic. The United States is making its best efforts to comply with the long range goals and financial policies outlined in Resolution 122(v). In light of the prevailing economic difficulties and the consequent poor chances for substantially increased concessional assistance, the United States has stressed that the preparatory process and the Conference devote serious attention to more effective mobilization of internal resources of the least developed countries as well as more efficient utilization of external assistance.

UNIDO III

The third general conference of the United Nations Industrial Development Organization (UNIDO III) was held in January-February 1980. It resulted in a North-South deadlock when, after lengthy negotiations, the developed countries solidly rejected the New Delhi Declaration and Plan of Action drafted by the Group of 77. Despite broad agreement on many points, the industrial countries could not accept several major components of the New Delhi text, including a $300 billion Global Fund for

Industrial Development. More fundamentally, the New Delhi Declaration and Plan of Action emphasized international measures for industrialization and did not accord national measures the primary place in the industrialization strategy it espoused. However, in several meetings since UNIDO III, including the Industrial Development Board (IDB) meeting in May and the current UNGA session, the United States and other developed countries were able to insulate UNIDO as an organization from the dictates of UNIDO III. In effect, the Group of 77 have agreed to sidestep the New Delhi Declaration and Plan of Action which has not been endorsed as a mandate for UNIDO's programs. Instead, with US support, those areas where consensus was possible in New Delhi have been designated priority areas for UNIDO activities so that UNIDO may continue without undue interference from the polemics of the North-South dialogue.

Retroactive Terms Adjustment

At an UNCTAD Trade and Development Board (TDB) meeting in March 1978, developed donor countries agreed to seek to adopt measures to adjust the terms on past Official Development Assistance loans in order to bring them in line with the currently prevailing softer terms. Implementation of this Retroactive Terms of Adjustment (RTA) proposal has varied. Each donor country has the responsibility of determining the distribution and net flows involved within the context of its own aid policy. In September 1980, the UNCTAD TDB reviewed the implementation progress of the participating countries and noted that the actions taken by some developed donor countries regarding the interpretation and application of the retroactive adjustment of terms met fully the expectations of developing countries.

The United States views RTA as a development assistance measure. Effective October 1, 1978, the US Government obtained from Congress the authority to undertake retroactive terms of adjustment to benefit the least developed nations on a case by case basis. Terms adjustment does not constitute a rescheduling of debt payments or a cancellation of a country's obligation to repay its debt to the United States. The effect is an increase in the net flow of resources from the United States to the least developed countries. The precise amounts of RTA, however, are subject to Congressional appropriations; requests for such appropriations thus far have not been approved by Congress.

III. DEVELOPMENT ASSISTANCE PRIORITIES

The United States makes development assistance available through a range of bilateral and multilateral programs described in Section IV of this report, "Official US Support for Development." The following section does not describe all US-supported development activities but rather discusses the priority sectors of the US bilateral program and the development issues of particular concern to the United States in the multilateral institutions to which the United States contributes.

The International Development Cooperation Agency gives priority attention in AID's bilateral development assistance program to food and agriculture, energy, health, and population; the Peace Corps focuses its efforts similarly. These are sectors where the need is clear; about which developing country governments are concerned; in which US efforts can be particularly effective; and in which success is critical to any long-term effort to balance the increasing global demands for food and energy. Although the multilateral development banks and the international organizations have important programs in other sectors, they also provide considerable resources in these critical areas.

Education is also a critical development sector. Many of the US supported programs in food and agriculture, energy, health, and population include education components that range from teaching villagers to use existing or new technologies to advanced training for developing country professionals. The United States pioneered, primarily through AID, in emphasizing the importance of primary and non-formal education in developing countries. Today the multilateral institutions and the developing countries themselves devote large resources to education. AID concentrates on replicable education projects unlikely to be carried out by other donors and where the United States has a special role to play. Such areas include systems planning, curriculum reform, non-formal "life skills" education, and the use of technology for mass education. In 1980 forty percent of Peace Corps volunteers worked in education projects including vocational and teacher training, classroom teaching, literacy, and non-formal education.

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Part A of this section, Priority Sectors, describes the activities of the multilateral and bilateral programs to which the United States contributes in Food and Agriculture, Energy, Health, and Population. Part B, Cross-Sectoral Emphases in Development, describes activities in four areas of special concern to the United States --Women in Development, Scientific and Technological Cooperation, Capital Saving Technology, and Natural Resources Management and Environmental Protection. Much of the concern in these four cross-sectoral areas is on the focus of and methods used in projects undertaken in the priority sectors. Thus, the essays in Part B often refer to material found in the discussions of the priority sectors in Part A. Part C describes the efforts of the bilateral and multilateral institutions to improve effectiveness of development assistance efforts through improved evaluation.

Underlying all US development assistance efforts is the central objective of enabling developing countries to meet basic human needs of their citizens on a sustainable basis. Achieving this objective requires accelerating equitable economic growth, particularly in ways that assure the direct participation of poor people through increased productive employment and income. A central concern of the United States in all sectors is the impact on the poor majority in developing countries, especially the consequences of these sectoral activities for productive employment.

III.A. PRIORITY SECTORS

III.A.1 FOOD AND AGRICULTURE

Achievement of food security is one of the most important objectives for the world during the last two decades of the Twentieth Century. Vast pockets of poverty and severe malnutrition have stimulated increased awareness of the intimate relationship between poverty and hunger and cognizance that amelioration of the first can lead to the solution of the second. Increased emphasis on rural development and on higher agricultural productivity is a reflection of the effort to translate such objectives into strategies for action.

Food security requires that adequate food supplies be reliably accessible at affordable prices to those who require them. Such prices should not be higher or lower than those needed to stimulate production. Defined in this way, food security does not prejudge where production should take place. It does assume, however, that efficient distribution systems must exist that do not increase unit cost beyond reason. In a similar way, location of buffer stocks, used to smooth out seasonal factors or transport schedules, becomes a function of storage and transport costs. Purchasing power, however, must be located in the hands of the consumer who needs the food.

In a large number of developing countries, particularly the least developed, food production levels are not adequate and income levels are not sufficient to guarantee access to minimum food requirements. This situation implies that increased supplies be obtained locally in ways which stimulate widespread increases in income. Experience during the 1970s shows that, during periods of tight supply and rising prices, low income countries cannot compete for available food supplies in international markets without outside help. The inability to compete for food on the world market usually results in malnutrition and sometimes in starvation. It is in these low-income countries that actions to increase food production, worker productivity and the income of poor people are most urgently needed to attain food security. For these countries, continued dependence on a few foreign supply sources may mean exposure to high risk, especially at a time when agreement has not been reached on creating an international system of buffer stocks to stabilize grain markets.

Hunger and malnutrition continue to be severe global problems. Food prices rose rapidly during the first half of the 1970s, at the same time that population pressures were increasing the number of urban and landless poor who could not afford to purchase nutritionally adequate diets. Although it is not possible to measure the prevalence of malnutrition exactly, the UN Food and Agricultural Organization (FAO) estimates that some 500 million people subsist on less than adequate diets. The costs in disease, suffering, and lost economic productivity are very high.

These problems have long been a major concern to the American people. Beginning in the 1950s, US development assistance programs have provided food aid (Food for Peace) and assistance for increased agricultural productivity.

During the last decade, world attention has turned increasingly to problems of hunger, food, and agricultural productivity. In the midst of the 1972-74 food crises, the World Food Conference was held in Rome in 1974 to deal with food issues. New organizations such as the World Food Council and the International Fund for Agricultural Development (IFAD) were created to help implement the Conference's recommendations. Multilateral and bilateral food aid and agricultural assistance programs have also been increased.

The World Situation

In the 1950s, the developing countries (as a group) were virtually self-sufficient in food, at least in a market sense. In the early 1970s, they imported 15-20 million tons, one-half in food aid provided principally through the US Food for Peace Program. During the 1970s, the deficit grew significantly with wide year-to-year fluctuations in response to varying harvest levels and increased population and income. Despite recent large harvests in some large countries, the long-term food prospects in developing countries remain uncertain. The worldwide return after 1974-75 to more ample food supplies masks the imperfections of the world food system. In fact, current prospects strongly suggest that in 1980-81 world food stocks will be down to levels as low as those in the early to mid-70s. The US Department of Agriculture (USDA) forecasts that in 1980-81 overall grain stocks will represent only eleven percent of world utilization, down from fifteen percent in 1978-79.

The food deficit in the developing world is projected to rise substantially during the 1980s. On the supply side, production is not likely to grow substantially faster than in the past. Resources such as land and water are being increasingly strained. The costs of other inputs such as fertilizer and pesticides are rising. On the demand side, two factors are at work. Population growth has reduced the per capita growth rate of food production to less than one percent on average. At the same time, many developing nations, especially oil exporters and middle-income countries, have experienced significant growth in per capita income. A substantial portion of these initial increases in national income has gone for the purchase of food.

The USDA has recently estimated that developing countries' import requirements will grow by 43 million tons to over 120 million tons by 1990, compared to imports of 30 million tons per year during 1973-75. Even if exportable food surpluses can be produced at sufficient levels in other parts of the world, most of the food deficit countries are not likely to have the foreign exchange to import such large quantities on a commercial basis. In fact, the recent Global 2000 Report projects that total per capita food consumption will actually decline in sub-Saharan African low-income countries.

A major consequence of rising import demands is likely to be an increase in the relative price of foodgrains in both the industrialized and developing countries. The increase in the value and price of food imports will put additional pressure on the balance of payments position of many developing countries, affecting overall development prospects.

Countries differ with respect to import capacity. At one end of the spectrum, the Organization of Petroleum Exporting Countries (OPEC), and the newly industrializing countries -- including South Korea and Taiwan -- have growing industrial capacity and export earnings. This group is likely to have ample foreign exchange to meet its food needs with commercial imports. At the other end are the low income, food deficit countries of Asia and Africa. This is the group where the long-term outlook for meeting the nutritional needs of the population remains extremely poor.

Significant changes occurred in the world's food and agricultural situation during the decade of the 1970s. In this period, the United States became even a more dominant supplier in international grain markets than it had been in the 1960s. In fact, the United States became the supplier of last resort. In 1979-80, US wheat exports accounted for 43 percent of total world wheat exports. In 1980-81, the projected 41.5 million tons of wheat to be exported will account for 47 percent of the total. In coarse grains, the US position is even more dominant -- US exports accounted for 72 percent of total exports in 1979-80. The same market share is forecasted for 1980-81. In addition, the US has provided, for the past decade or more, over 60 percent of total world food aid.

In the 1970s, the Soviet Union became a primary source of instability in international grain markets. Faced with large variability in crop levels as a result of weather and management problems, the Soviet Union has followed an aggressive import policy to stabilize domestic food and feed grains supply. This policy provoked near panic in international grain markets in 1973-74 when very large purchases of grain by the Soviet Union doubled the price of wheat in real terms. This price change had two immediate and mutually reinforcing effects. First, it priced many poor countries out of the market. Second, because appropriations for US food aid are made in terms of dollars, the volume of food aid which could be purchased by the US Government was significantly reduced, precisely at a time when such assistance was most needed by food-deficit, low-income countries.

In 1974, wheat prices in real terms were the highest since 1950. While prices had declined by one half from 1974 to 1977, they have started to rise again during the last two years. Not surprisingly, the Soviet Union has again experienced serious shortfalls in cereal crops during these years. Corn prices have followed a similar pattern, but new price increases have occurred as a result of a serious shortfall in US corn production during 1980.

Another significant development during the 1970s was the growing importance of Chinese cereal imports. Imports have grown from about 5.2 million tons in 1976-77 to about 10.8 million tons in 1979-80 to 14.5 million tons forecasted for 1980-81. Eighty-three percent of these imports will be wheat. In late 1980, China signed a bilateral trade agreement with the United States giving China guaranteed

access to purchase up to eight million tons of grain per year. In 1975, a similar agreement, also for eight million tons, had been signed with the Soviet Union in order to reduce the element of surprise in that country's purchases. In 1979, in response to the Soviet invasion of Afghanistan, the US Government embargoed all grain sales to the Soviet Union above and beyond this limit. The embargo affected the sale of 17 million tons of grain.

In part to reduce the price uncertainty produced by the increased variability of foreign demand, the US Government moved in 1977 to establish a domestic farmer-owned cereal reserve. While no minimum reserve level was specified, a level of 25 to 30 million tons of grain was planned. As of October 1980, that reserve contained 21.5 million tons of grain, including almost six million tons of wheat. In addition, the US Government pledged, in the context of the Food Aid Convention, a minimum level of food aid of 4.47 million tons per year. In December 1980, President Carter signed the Food Security Act that established a special government-owned four million ton wheat reserve to be used to support that pledge. This stock will be additional to that in the farmer-owned reserve.

Another development in the world food situation was India's success in achieving market self-sufficiency in cereals. For the past three years, India, with the second largest population on earth, has not had to import grains. In addition, India has been able to build up a significant buffer stock to assure adequate cereal supplies and even to repay some wheat it had received as a loan. This situation, a result of long-term investments in human and physical capital, has been significantly aided by good weather; nonetheless, it has given India a greater capacity to face the effects of poor harvest levels. While nutritional adequacy has not been reached in India, the current situation is a major accomplishment for a country with its large population and low income levels.

Finally, it is important to note that during the decade, middle-income countries, which have been experiencing relatively high rates of economic growth, were among the major purchasers of food in the international market. The World Bank (IBRD) estimates that middle-income countries, particularly the oil exporters, took about fifty percent of the total incremental wheat imports from 1976 to date. The IBRD estimates that middle-income countries will account for one-half to three-quarters of total incremental food imports through 1985.

Data for 1979 show that world food production grew at only 0.8 percent during the year, in contrast with a growth rate of 4.2 percent reached during the previous year. The 1979 figure also compares unfavorably with the annual rates of 2.5 and 2.6 percent achieved during 1970-74 and 1974-79 respectively.

Regional growth rates ranged from 4.1 percent in North America to -3.7 percent in Oceania. Food production declined in the Soviet Union and Eastern Europe at a rate of -4.7 percent. In the United States, 1979 and 1980 have been years of very high wheat production. The 1979 crop reached a record 58.3 million tons, while the 1980 crop, at 64.3 million tons, represented an increase of more than ten percent over the year before. In 1980, US production of food grains (wheat, rye, and rice) is currently estimated at about 81 million tons, a twenty-five percent increase over 1979. In 1980, however, production of corn has declined by 17 percent. From the point of view of trade, US grain exports are projected to account for 58 percent of the world's total in 1980-81, up from 57 percent in 1979-80, and 53 percent in 1978-79. The only other major grain exporters are Canada, Australia, Argentina, and the European Community.

Regional Assessment for Developing Countries

Africa

Overall food production performance in Africa remained very poor. Per capita production has declined steadily over the last two decades. Total food production (including livestock) grew at 2.1 percent from 1978 to 1979, up from average annual rates of 1.6 percent and 1.1 percent during 1974-79 and 1970 respectively, but still below the population growth rate for the region.

These trends cannot be changed quickly. On the supply side, Africa suffers from inadequate institutions, lack of skilled human resources, and poor infrastructure. Food production is concentrated in the subsistence sector, remains very traditional, and uses little modern production technology. In contrast, the agriculture export sector is a large user of modern methods. Africa is probably the only region of the world where labor shortages pose serious bottlenecks, especially at critical times during the crop cycle. In addition, the African physical environment is frequently hostile to efforts to increase food production:

drought and desertification affect a third of the continent; low fertility is found in the extensive savannas; increased population density has led to increased depletion of soil resources reducing the time land can be kept out of production. Not much is known about African production systems and social organization. Food production technology, adapted to African conditions, is not readily available. Finally, African governments often have not placed high priority on developing their food production systems, thus, even technologies known to be locally effective in increasing agricultural productivity frequently have not been used to their full potential.

Obviously, performance levels vary within the region. The Sahelian Zone, running from Mauritania on the Atlantic to Somalia on the Indian Ocean, has suffered severe reductions in food and livestock production for more than a decade. Climatic conditions, especially drought, have been a major factor. Political upheaval and war in many of these countries have also been major obstacles to increasing food production.

In Sub-Saharan Africa, other countries more favorably endowed than the Sahelian nations have also performed poorly. In some, like Uganda and Zaire, political strife and poor management have led to gross underuse of the physical resource base and to waste of financial resources. Several sub-Saharan countries, such as Kenya, Ivory Coast, and Senegal, have achieved increases in per capita food production. Such increases can be explained not only in terms of good weather and land, but also by a higher degree of national commitment to developing their agricultural support systems.

Asia

Food production per capita in Asia decreased at a rate of -4.3 during 1979 after five years of increasing at an average annual rate of 1.1 percent. This setback resulted from lower rice crops caused by drought. In 1980, there has been more rain and production is expected to increase, especially in South Asia. India was able to withstand two successive years of poor monsoon without having to resort to imports, due to extensive irrigation systems covering twenty-five percent of the area in cereals and buffer stocks of cereals accumulated during the past four years. Pakistan and Indonesia continued to be efficient agricultural exporters which allowed them to import, respectively, the wheat and rice they required.

Bangladesh increased its cereal production significantly though it will still require imports of about one million tons of wheat. Per capita food production in Bangladesh has not yet reached the levels attained before independence; however, both the government and foreign donors believe that Bangladesh has the resources to become self-sufficient in grain production in the next ten years.

Latin America

According to FAO, Latin America increased its food production at a rate of 2.7 percent in 1979, thus matching its population growth rate. This performance follows an average annual increase of 3.8 percent achieved during the 1974-79 period.

Although Latin America is on the whole a food surplus region, significant pockets of malnutrition exist as a result of the skewed distribution of income. Better performance in production and food distribution could be attained by the development of marketing, credit, and input delivery systems directed at the small marginal producer. In some countries, changes in land tenure systems may well be a necessary condition to improved food consumption by the rural poor.

Of special significance to the United States are the small island countries of the Caribbean. Many of these countries import most of the food they need. Currently, despite their small populations, they absorb more than 16 percent of US agricultural exports to Latin America.

US Policy Objectives

Due to rapidly increasing population and widespread malnutrition, attaining minimal levels of food production and consumption could spell the difference between starvation and survival in many developing countries.

The US policy objectives regarding agriculture in developing countries include:

-- to provide technical and financial assistance for agricultural and food production and distribution;

-- to assist the low-income countries in meeting their food needs;

-- to alleviate hunger and malnutrition in the short-to medium-term through food aid programs;

-- global food security.

Three major types of actions will be required in the next decade. First, food production in most developing countries, especially where hunger is most severe, must be increased. Second, the earnings of the poor must be increased to enable them to increase their food consumption. Third, the United States must not only maintain its status as a food surplus nation, but also continue to provide technical and financial assistance to help the poor countries improve their food production and distribution. The United States must maintain its capacity to provide food assistance for those immediately threatened by hunger and malnutrition.

Meeting these goals requires a variety of specific commitments by both developed and developing nations. Developing countries must accord higher priority to agriculture and food. Three-quarters of the poor people in developing countries are engaged in agriculture. Many countries must transform their economic structures to permit broader access to productive resources, especially land and water. Such transformation is likely to require more participation of rural people in local decisions and the countries' political processes. Higher priority must also be given to the improvement of human resources, institutions, and technologies required to achieve higher agricultural production and rural development. The United States must support these efforts.

Progress with US Assistance Toward Meeting Objectives

International assistance for agricultural development and food production has played and continues to play a critical role in assisting developing countries in meeting their food needs. In recent years, a large share of bilateral and multilateral assistance has been oriented toward the need to increase food production. The Congressional mandate for "New Directions" for AID, the Peace Corps' emphasis on local food self-sufficiency, the World Bank's policy on Rural Development, the policy guidance of the OECD Development Assistance Committee (DAC), the creation and focus of the International Fund for Agricultural Development (IFAD), and the Action Program of the World Conference on Agrarian Reform and Rural Development are important expressions of the growing awareness of such need.

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The relative importance of agriculture in bilateral and multilateral aid allocations has been rising in recent years. In 1978, total commitments from DAC, OPEC countries and multilateral programs to agricultural development in developing countries were $7.7 billion. This represents almost a doubling in real terms over the level in 1973. As a share of DAC bilateral aid, assistance to the agricultural sector doubled in this period to reach over 16 percent of the total -- two-thirds of which went to low-income countries (under $400 per capita income). In 1978, multilateral agencies committed almost two-thirds of their total assistance to food and agriculture.

A considerable share of AID development assistance in recent years has been for agriculture and rural development. Seven hundred million dollars were allocated for food and agriculture for FY 80, an increase of 16 percent from FY 79. An additional $152 million was used for agricultural development programs and projects from the Economic Support Fund (ESF). About one-third of the ESF used for agriculture is used for the development and distribution of new agricultural technologies, and another one-quarter is used for marketing, storage, input supply, and credit. The remainder is spent on rural infrastructure, planning, and support for local institutions. US bilateral aid in agriculture is frequently associated with other bilateral and multilateral sources in joint financing activities. These may run from participation in broad program frameworks, (e.g., the Club Sahel) to joint financing of specific projects. Bilateral assistance has been channeled through different types of programs. Food aid, for instance, has been an important component of aid flows to alleviate hunger. In 1979, the United States provided about 6.0 million tons of grain through the PL 480 program, including contributions to the World Food Program (WFP). Food aid commitments reached 6.2 million tons in 1980, of which 5.9 million were grain. Other donors provided an additional 3.6 million tons in 1980. Food aid has not only served to fill serious food gaps resulting from emergencies but it has also been used to support other development activities such as construction of basic rural infrastructure. Under Title II and the WFP, nutritionally disadvantaged groups receive direct food assistance through school feedings, maternal and child care programs, food for work and other activities. Concessional food sales under Title I have not only added to countries'

total supplies but have been extensively used to stimulate mobilization of domestic resources for investment in agriculture. The new Title III of PL 480 was adopted to encourage increased domestic resource allocation in developing countries to agriculture. Fully 75 percent of Title I sales has been directed to the low-income countries.

Other programs have approached the food problem by directly addressing other aspects of malnutrition. Several donors are providing assistance for nutrition education, food fortification, nutrition planning, and programs designed to attack specific nutrient deficiencies such as lack of vitamin A, which causes blindness. AID is the largest bilateral donor providing technical assistance in the area of improved nutrition. The UN system has been working in nutrition surveillance and planning, including problems concerning vitamin A deficiencies. UNICEF and many private voluntary organizations (PVOs) have been especially active in outreach programs aimed at disadvantaged children. The World Bank has funded some large scale projects and has taken the lead in attempting to integrate consumption and nutrition considerations into agricultural production and rural development projects.

The bulk of AID's assistance has gone into agriculture and rural development programs. AID, under the New Directions policy, as well as the Peace Corps, has taken a lead in this type of orientation. AID has redirected most of its programs toward the rural poor and much attention has gone to assuring that the activities financed actually help the rural poor.

Peace Corps' agriculture and rural development projects are implemented by over 1,600 volunteers working in 43 countries throughout Africa, Asia, and Latin America. These volunteers assist poor rural families to use their human and material resources more efficiently in an attempt to become more self-sufficient. Volunteers provide technical assistance to enable the rural poor to increase crop, livestock, and fish production; engage in agricultural extension and education programs to increase the rural poor's access to information and new techniques; and assist in building rural infrastructure to help increase incomes and the amount of food available for local consumption by the poor.

The IBRD has been able to engage in financing of major infrastructural work as well as to increase steadily its emphasis on the poorest 40 percent of the people. In 1979, the World Bank approved projects in this category amounting to $1.6 billion. The International Development Association (IDA), the part of the World Bank providing loans on concessional terms to the poorest developing countries, financed close to an additional $1 billion in agriculture and rural development projects in 1979. These activities included projects in research and extension, area development, irrigation and flood control, and livestock.

Regional development banks have also been active in the agricultural sector. In Latin America, for instance, the Inter-American Development Bank (IDB) has been a major source of financing for rural infrastructure. Its investments in transportation and electrification, for example, have provided effective support to country efforts in agriculture and rural development. The IDB has also financed a large number of rural development projects, including irrigation. In 1978, the IDB loaned $1.9 billion to Latin America, approximately 22 percent of which went to agricultural projects. An important development is the emphasis of the IDB on focusing a greater share of its programs on the rural poor.

The Asian Development Bank (ADB) has also become a major source of funds for development. In 1978, its total lending level for the year exceeded $1 billion. One-third of this amount, $310 million, went to the rural sector. The ADB has emphasized an integrated approach to rural development, water management, and expansion of rural employment. Fisheries and livestock have also received emphasis as a means of improving nutritional standards of the people. Since 1968, the ADB has financed 47 irrigation and area development projects, 18 fisheries projects, and 7 fertilizer production activities.

In 1978, the African Development Bank and the African Development Fund loaned a total of $117 million in the agricultural sector, accounting for 28 percent of total lending. Projects which received financial assistance included those designed to increase food and animal production, especially in those countries heavily dependent on food imports. Loans also went to projects in cash crops, irrigation, water supply expansion, and infrastructure.

UN agencies, particularly FAO and the United Nations Development Program (UNDP), have also been very active in providing assistance for rural development. FAO has conducted effective programs for the reduction of post-harvest losses, locust control, fisheries, etc., and provides strong leadership in agrarian reform and rural development, food security, forestry, and project design and evaluation. During the 1980-81 budget cycle, FAO will invest about $850 million in these programs; $279 million of this total originates from assessed contributions with the balance representing voluntary contributions and resources from the UNDP program.

Finally, the creation of the International Fund for Agricultural Development (IFAD) marked the international community's decision to initiate a program with the basic objective of assisting developing countries in increasing food and agricultural production. IFAD's focus is the small farmer, the landless and rural poor. By the end of 1979, IFAD had made commitments totalling approximately $500 million for 33 projects in 30 countries. Seventy-five percent of this total was allocated to the least developed countries (those with per capita incomes of $300 or less).

Status of Multilateral Initiatives

Efforts have been underway to strengthen world food security. The main elements include: a more development oriented policy for international food aid; increased foreign assistance emphasis on expanding agriculture and food production in developing countries; an expanded information and early warning system within FAO on crop prospects; expansion of food storage systems in developing countries; the negotiation of the Food Aid Convention in 1980; and implementation of the International Undertaking for World Food Security adopted by the 1974 World Food Conference and supported by the United States.

In 1975, discussions on the development of an international grain reserve system were initiated by the International Wheat Council (IWC). In February 1979, the negotiations ended in deadlock. A Special Committee of the IWC began examining an alternative approach to a wheat agreement in October 1979. The approach developed by the Committee retains the concept of international coordination of nationally-held reserves but without rigid, automatic features. Members of the Wheat Council will decide in 1981 whether to begin the process of negotiations on the new approach.

In 1979, the World Food Council (WFC) proposed the development of Food Sector Strategies (FSS) in developing countries. The proposal called for donors to grant technical and financial assistance to develop these strategies. The proposal was approved. Currrently, almost twenty FSSs are under active planning. The United States is working on plans to develop food sector strategies in Mali and Sudan, and the governments of Canada, Germany, and Belgium, and the World Bank and the Inter-American Development Bank (IDB), have made explicit commitments to other developing countries.

In November 1980, the Netherlands sponsored a workshop on FSSs for Africa which included representatives from donor nations and twenty African countries. The main objective of the workshop was to reach an agreement on the nature and structure of African FSSs. Another workshop, hosted by Mexico and the IDB, is planned for February 1981 to explore the need and feasibility of developing FSSs in Central America and the Caribbean. Countries are expected to request help in developing a food stragegy and must make an explicit commitment of their own personnel to participate in conducting the study.

Late in 1979, the FAO and the WFC proposed the establishment of a Food Financing Facility (FFF) in the IMF to provide balance of payments support to meet exceptional variations in food import bills resulting from either crop failures or significant world food price movements. Such a facility is under consideration by the IMF. Two alternative methods to implement the proposal have been suggested; (1) an amended IMF Compensatory Financing Facility (CFF); and (2) a second window to the CFF. Under the first option, a Food Financing Facility could finance the import of about 3 million tons of grain per year, worth about $475 milion dollars at current prices. Given the criteria proposed for country drawings on the FFF, the facility would be accessible mainly to countries currently considered highly vulnerable, either because of their physical environment or the commodity structure of their foreign trade. The second option would allow for financing of up to 18 million tons of grain imports worth about $2.8 billion, if the most flexible criteria for drawings were adopted. The IMF staff has been asked to undertake further study on the possibility of amending the Compensatory Financing Facility.

III. A. 2. ENERGY

The World Situation

Development depends on the availability of energy at affordable prices to meet minimal household and industrial needs. Energy is essential for the modernization process and for increasing productivity. These development activities are hampered by the increasing cost of energy and its decreasing availability. Energy problems have become so severe that the development of low income countries is threatened. In some instances, energy-related economic problems threaten national, regional, and political stability.

With each OPEC price increase and oil supply disruption, oil-importing developing countries are forced to choose between reducing development expenditures, cutting essential social services, or going deeper into debt. The rise in petroleum prices is a serious impediment to increased food and agricultural production, particularly where increases in production are dependent on petroleum-based transportation, irrigation systems, and chemical fertilizers.

Economic growth in developing countries is much more closely tied to increased energy use than is that of the United States or other developed countries. Due to increasing industrialization and urbanization, developing countries are going through an energy-intensive growth phase similar to that experienced in the western countries prior to World War II.

The consumption of commercial energy in developing countries is projected to rise more than 80 percent in the 1980s, compared with GNP growth of about 70 percent. At present, developing countries account for only about 13 percent of the world's use of commercial energy; however, the energy requirements of these countries are expected to rise to 17 percent of the world total by 1990.

The World Bank forecasts that the oil importing developing countries (OIDCs) share of total world oil consumption may rise from 15 percent to 20 percent over the course of this decade to 8 million barrels a day of oil equivalent (mbdoe). Of the 92 oil-importing developing countries, more than two-thirds depend on imports for more than three-fourths of their commercial energy supply. The total cost is now running $70 billion annually, about 20 percent of total export earnings.

The LDCs also face a second energy challenge: the transition from heavy dependence on fuelwood. Non-commercial energy comprises 85 percent of rural requirements in many countries. The result of increasing demand for more fuelwood and dung as energy sources has been deforestation, devegetation, declining water tables, soil erosion, silting, desertification, and flooding. Annual loss of forest is now running 25 to 30 million acres per year--an area the size of Pennsylvania. Moreover, burning dung and vegetation in lieu of fuelwood carries health risks and deprives the soil of enough fertilizer to produce 20 million tons of grain, enough to feed 100 million people.

Oil and Gas

The World Bank estimates that oil importing developing countries have only about 2 percent of the world's proven oil reserves, but their share of recoverable reserves may be 15 percent. Currently, 20 oil importing developing countries are producing oil at the rate of 2 million barrels per day; oil has been discovered in five more countries (Benin, Chad, Niger, Ivory Coast, and the Sudan) that are not producers at present. Capital investment for financing for the development of additional reserves, including second phase discoveries, offshore extensions of coastal basins, deeper drilling, and increases in reserves from enhanced recovery methods, might raise production from the probable projected level of 3.6 million barrels a day to 4.8 million barrels a day in 1990. (See Table III.A.1.)

In the past, little oil predevelopment activity has occurred in developing countries. In 1978, 10 percent of geophysical activity occurred in oil importing countries and only 2 percent of oil exploratory wells were drilled in these countries. The World Bank suggests that investment expenditures on the order of $40-60 billion in 1980 dollars will be required during the decade to enlarge exploratory efforts, to provide a start in developing and testing techniques for exploiting reserves of heavy oil, tar sands, and oil shale, and to reach the levels cited in case 2 of Table III.A.1. This sum, large in relation to investment expenditures in recent years, is approximately equal to what OIDCs will spend in 1980 on oil imports.

TABLE III.A.1

OIL IMPORTING DEVELOPING COUNTRIES
ESTIMATED OIL PRODUCTION, 1980-90 (Million barrels a day)

	1980	1990	
	Estimated	Case I Probable	Case 2 Possible
Producers in 1980			
Normal	2.0	2.9	2.9
Enhanced Recovery	0	0	0.4
Nonproducers in 1980	0	0.7	1.5
Total Production	2.0	3.6	4.8

SOURCE: Energy in the Developing Countries, 1980, World Bank staff estimates.

Although natural gas is one of the cheapest energy options available to developing countries, its use has been limited in the past because domestic markets have rarely been large enough to absorb the high cost of building pipelines and distribution facilities. In 1978, 80 percent of associated gas was flared in Africa and 59 percent in Asia and the Middle East. Governments of gas producing countries, conscious of wasting associated gas, have initiated steps to either reinject the gas or treat it in order to extract liquified petroleum gas (LPG) and natural gas liquids (NGL). Many developing countries have not, however, developed a gas industry for their domestic markets, because they are too small to justify the large investments required for infrastructure. In the countries currently exploiting their natural gas, it is used mainly for power generation and industry which absorbs a large enough volume to justify construction of pipelines. With appropriate infrastructure, natural gas use in developing countries might equal 10-12 percent of total commercial energy consumption by 1990.

Coal

The world's recoverable coal reserves are about five times the size of proven oil reserves (636 billion metric tons of coal equivalent). Coal production in developing countries increased from 130 million tons to 160 million tons (5.7 percent of world total) from 1973-78, an average increase of 4.5 percent per year. Although 29 developing countries produce coal, 90 percent is provided by nine large producers (Brazil, Colombia, India, Korea, Mexico, Romania, Turkey, Vietnam, and Yugoslavia). With accelerated investment, coal production growing at 6.6 percent could reach almost 350 million tons by 1990.

There are various constraints on the expansion of developing countries' coal production, including transportation bottlenecks, insufficient investment funds and technical know-how, and demand uncertainties regarding exports. Most important is the lack of detailed, high-quality geological data and of viable coal investment projects ready for implementation. Even where accessible coal deposits of reasonable quality are available, limited domestic markets are a constraint and development of deposits depends on the availability of export markets which are dominated by established exporters. In addition, long lead times are required in the development of coal mines.

Although very little quantitative work has been done on the demand side, the World Bank estimates that coal consumption in developing countries will rise from 193 million tons in 1980 to 345 million tons in 1990. Currently, over 50 developing countries consume coal, but only 15 consume more than one million tons a year. Most of the coal consumed is used to generate electricity, although coal is particularly suitable for cement plants, pulp and paper industries, and textile mills.

Hydropower

Hydropower currently accounts for 41 percent of the power generating capacity of developing countries, and can be greatly expanded since only 10 percent of its potential has been developed. Africa has over 20 percent of the world's hydropower resources, with only about 2 percent of the potential developed. The corresponding figures for Latin America (20 percent of world potential) is only 6 percent and Asia (25 percent of world potential) is only 12 percent. The economics of hydropower have become significantly more attractive with the rapid rise in the price of fossil fuels. Although the operating costs of hydropower are small, the capital costs are large; hence, hydropower development may be limited by the availability of capital and foreign exchange. While the lack of basic hydrologic studies has inhibited hydropower development, the World Bank projects that approximately 100 gigawatts (gW) of hydro capacity will be added in approximately 60 developing countries over the next decade.

Mini-hydro projects comprise about 5-10 percent of the world's total hydro resources. If they can be connected to the central grid, mini-hydro plants can be used to replace energy supplied by fuel as well as to provide additional capacity. In isolated areas, for small industry and village electrification schemes, mini-hydro can supplement or replace high speed diesels.

Nuclear

Nuclear power plants are currently under construction or in the planning stage in a few developing countries. Current installed capacity of 3.4 gigawatts (gW), less than 2 percent of electricity supply in developing countries, is expected to grow to over 10 gW during the 1981-85 period. Developing countries like Brazil, Pakistan, India, Argentina, South Korea, and Taiwan already have access to nuclear power, and

Mexico and the Philippines are also expected to begin using nuclear to produce electricity by the early 1980s; however, reservations about nuclear development continue to exist reflecting, interalia, the problems of radioactive waste disposal, safeguards, and security.

Developing countries are at a relative disadvantage in nuclear power development because of shortages in capital, skilled labor, and management, and the relatively large size of commercially available power plants. The rising cost of safeguards and related activities makes nuclear power a less economically attractive energy alternative.

Non-Commercial Energy Sources

In sharp contrast with the industrialized economies, most developing countries remain heavily dependent on traditional non-commercial energy sources such as firewood, charcoal, and plant and animal wastes. Although these fuels are called "non-commercial" they are increasingly being sold as commodities instead of being gathered by the users.

In most countries, the demand for traditional fuels is dominated by household uses, primarily cooking. Approximately half of the world's population and three-fourths of those in developing countries do not cook with modern fuels such as gas or electricity. Apart from use of fuelwood, and animal and crop residues for cooking, a variety of other non-commercial energy sources are used in rural and urban areas. For example, wind energy is used in separating grain from chaff, drying meat, and lifting water. Biomass fuels are used in space heating. Solar energy is used for crop drying. Human and animal power are widely used for water hauling, transport, harvesting, and initial processing and tilling. A host of cottage industries, small-scale and medium-scale enterprises (e.g., blacksmiths, brickmakers, and tobacco dryers) use large quantities of charcoal for fuel.

The non-commercial energy problems of developing countries will undoubtedly become more acute. Growing populations and rising prices of kerosene will keep demand for fuelwood and biologic waste high, further damaging the natural ecology and boosting fuelwood prices. The obstacles to the rapid reversal of environmental degradation are

formidable. In addition, the problems are not clearly understood, and the financial costs are high; therefore, national planning and institutional development are essential to provide effective land management and fuelwood production.

Deforestation and desertification have often resulted from indiscriminate felling of trees. The demand for fodder to feed animals, the expansion of agricultural land, and the demand for fuelwood are causing deforestation, with severe effects on soil quality, erosion, and water supply. At current rates many countries may be denuded before the end of the century.

The loss of soil as a result of deforestation not only increases the difficulty of reestablishing forest production on the affected areas, but may also lead to problems downstream. The eroded soil may be deposited in reservoirs, irrigation canals, or riverbeds. In addition, soil erosion leads to more irregular water runoff, which decreases useable water and increases flood potential. Desertification occurs when the vegetation cover is reduced to meet forage and fuel needs and when the wind blows away the soil. Fuel scarcity can also affect agricultural productivity, by forcing people to withdraw cow dung and crop residues from use as fertilizer and soil conditioners.

The World Bank has concluded that a massive reforestation program is essential and that at least 125 million acres of planting (an area larger than California) is required during the next 20 years to meet demands for fuelwood and to stabilize the tropical forest cover. In terms of energy, the benefits of such an effort would be enormous. At least 500 million persons would be provided fuelwood on a sustainable basis, potentially saving more than 100 billion gallons annually of imported commercial fuel, which at today's prices would cost more than $7 billion. The Bank's projections imply a planting requirement of 6.25 million areas annually. The present planting rate is 1.25 million acres per year, leaving a gap of 5 million acres. The cost of filling this gap will be $1.5-2.0 billion a year.

New Technologies

Electricity generated from high temperature geothermal sources can be substantially cheaper than electricity from oil or fossil fuels. Geothermal resources have been used in countries like New Zealand for industrial process steam, in the US, Japan, Italy, the Philippines, Mexico, and El Salvador for electricity generation, and in Iceland for space heating and domestic hot water supply. Various other developing countries are believed to have geothermal potential, e.g., Venezuela, Costa Rica, India, Indonesia, Tanzania and Burundi. The World Bank predicts geothermal capacity in developing countries at 2300 megawatts (MW) in 1990.

Energy Efficiency

Developing countries can achieve substantial benefits by a broad program of demand management designed to increase the efficiency of energy use. Substantial savings could be achieved by curbing energy demand growth in the industrial sector through planning of industrial development, technical improvement in industrial processing, and retrofitting. Sizeable energy savings could be realized in transport, the electric power industry, and the household sector. Developing countries have the opportunity to build in greater energy efficiency as they grow, by incorporating the latest technologies. Table III. A. 2 offers World Bank estimates of potential savings in commercial energy consumption in 1990 with no change in projected GNP growth rates.

Renewables

Although many renewable energy alternatives are not currently available for use, some alternative energy sources are both practical and economical. Simple solar devices without focusing collectors can be used for a variety of purposes. Solar water heaters are economical alternatives where people are willing to pay for heat. Solar dryers can be used to reduce losses due to rotting, insects, and rodents, provided that the design accommodates local production and uses local materials. Solar water distillation is also being used in various developing countries.

TABLE III.A.2
DEVELOPING COUNTRIES: POTENTIAL SAVINGS IN COMMERCIAL ENERGY CONSUMPTION - 1990
(Million barrels a day of oil equivalent)

		SAVINGS FROM				
	PROJECTED CONSUMPTION /a	PRICING POLICIES	TAXES AND REGULATIONS	RETRO-FITTING AND TECHNICAL IMPROVEMENTS	INTERFUEL SUBSTITUTIONS AND SCALE ECONOMIES	TOTAL PRODUCTION
Electric Power /b	6.5	0.1	(.)	0.5	0.1	0.7
Agriculture	1.5	(.)	(.)	0.1	(.)	0.1
Households	5.9	0.3	0.1	0.1	0.4	0.9
Transport	7.5	0.1	0.1	0.6	0.2	1.0
Industry	8.7	0.2	0.2	1.1	0.3	1.8
Other	0.5	0.1	(.)	(.)	(.)	0.1
Total	30.6	0.8	0.4	2.4	1.0	4.6

(.) Less than .05 the unit shown.

/a Based on "High Case" projections of GNP and 3 percent per year increases in oil prices as in World Development Report, 1980: a ratio of energy consumption to GNP growth of 1:1.2; and a price elasticity of energy consumption of -0.3 percent.

/b Includes energy consumed in generation, station use, losses in transmission and distribution.

SOURCE: Energy in the Developing Country, World Bank, August 1980

The fuel requirements of mechanized vehicles are difficult to meet with energy sources other than petroleum. Alcohol fuels, both ethanol and methanol, are the most promising candidates; however, their use will be limited until technology is improved for economic production. Experiments with farm-size stills are being carried out in Brazil. Alcohol is still considerably more expensive than petroleum fuels and uses large amounts of raw materials which may require diverting scarce land from other agricultural uses.

Traditional and modern windmills are worth considering in areas with adequate wind and poor rainfall such as northern Mexico, Peru, some north and east African countries and India. Based on experiments with wind energy conversion systems in the U.S., this technology appears to be economically competitive with other sources. Until costs decline sharply, the use of photovoltaic cells is likely to remain limited to situations requiring small amounts of electricity (less than 6,000 kilowatt hours per year) in remote locations where alternatives are very expensive. Rural water pumping in areas far from electrical grids may offer such opportunities for photovoltaic use in the near future. Biogas produced from animal, plant, and human wastes can be used directly in cooking and provide a by-product of rich fertilizer.

US POLICY OBJECTIVES

The primary US policy objective regarding energy is to assure adequate energy supply at reasonable prices to support continued world economic growth. US policy aims at encouraging developing countries to expand their own energy resources (both non-renewable and renewable), without increasing the risk of nuclear proliferation, and to assist developing countries in overcoming energy-related constraints to their development.

The United States can play an effective leadership role in assisting developing countries in their efforts to become more self-sufficient in energy. American technical expertise in energy is enormous. Relatively modest financial investments in the energy sector can prove beneficial to both the US and developing countries by developing alternative energy supplies and improving efficiency of use. The lack of sufficient financing, on terms acceptable to both host governments and foreign investors, prohibits developing countries from fully developing their energy potential.

Technical assistance is also necessary to help developing countries assess their energy sources, uses, needs, and options in a comprehensive way. Few countries have energy plans or planning capability, nor have many conducted surveys of energy data such as rural energy patterns, solar radiation distribution, coal reserves, or the full scope of their wind and hydropower potential.

PROGRESS IN US ASSISTANCE TOWARD MEETING OBJECTIVES

In each energy area of concern -- fuelwood and forestry, new renewable energy, efficiency, fossil fuels, and hydro-power -- development is constrained by lack of both technical and financial resources. The mix of needs differs widely as does the degree of required experimentation and demonstration. In energy, as in other areas, we look to multilateral programs as well as the private sector to provide the financing necessary for large capital projects. To increase the rate of exploration for oil and gas, of coal conversion and use, and of hydropower generation, large capital inputs are needed; the technologies are largely known. Assistance in these three areas, therefore, is provided primarily by the multilateral development banks, through their catalytic leveraging of capital, with a supporting role for other donors of relatively modest technical assistance efforts.

AID

In energy, the bilateral programs specialize in research and technical assistance. Concessional bilateral capital financing is generally appropriate only where a large degree of experimentation, demonstration, or institution-building is involved. The roles of technical assistance and experimentation are greatest in increasing efficiency in fuelwood and forestry activities, in energy planning, and in developing and applying appropriate new technologies. In each of these areas, the United States plays a leading role. AID's bilateral assistance program in energy was about $30 million in 1980.

AID is already committed to a major technical assistance program in fuelwood and reforestation, including the testing and demonstration of new technologies, village and community woodlots, training, institution building, experimentation with fast growing species, and improved cookstoves. In 1980, AID's budget for fuelwood programs was $10.7 million. The program is expected to expand significantly as new projects now being identified are ready for financing.

AID has been building an energy assistance program ($14.5 million in 1980) which focuses on renewable energy, and institution building for improved management of all energy resources. AID is working at the frontiers of this emerging field, and will finance extensive testing and adaptation of technologies to determine their cost and effectiveness in specific developing country applications. In addition to technical concerns, special attention will be given to economic, social, cultural, environmental, and management issues.

Regardless of their resource base, all countries must make greater efforts to use energy more efficiently and to integrate long-run energy issues more completely into economy-wide planning. In this area, the United States can make a strong bilateral contribution through training, collaborative planning, direct technical advice, and services. AID and the Department of Energy are already working together in designing energy assessment and planning programs to avoid duplication of effort. AID is also expanding its technical assistance targeted directly at improved energy efficiency in both the traditional fuels and industrial and transportation sectors.

In oil/gas, most developing countries have not participated actively in the search for or development of their resources. They lack trained and experienced manpower and adequate knowledge of their resource base. AID is providing technical assistance to address these problems. A new program will soon begin training developing country nationals in existing US institutions in technical fields relevant to fossil fuel development. AID supports geologic studies in a few countries with a promising outlook. These new initiatives will be conducted in close collaboration with the World Bank. In 1980, AID spent $4.7 million on fossil fuel programs.

Rapid development of coal use is constrained in part by a lack of adequate technical expertise, planning capability, and detailed geologic data. AID will conduct training under the previously mentioned program and will begin technical assistance in planning in several countries. In addition the Trade and Development Program (TDP) will increase its involvement in coal by promoting the export of US equipment, technology, and expertise.

An important constraint to accelerated investment in hydropower is insufficient data on hydro resources. AID can play an important role by conducting basic surveys and helping countries formulate comprehensive river basin development plans in order to generate additional projects for large-scale financing. In addition, AID is helping to promote low-head, small-scale hydropower which offers many economic advantages in specific regions.

The following are US sponsored technical assistance programs in the field of energy sponsored by the United States.

Department of Energy (DOE)

While most of DOE's international activities to develop cooperatively or facilitate the development of new energy technologies have been with industrial countries, there is increasing recognition of the importance of working with developing countries. DOE has a number of programs, including the Country Energy Assessment program.

The primary objective of the Country Energy Assessment program is to cooperate with various developing and industrializing countries to help them strengthen their energy planning capability. The assessment activity is a fully collaborative effort carried out by counterpart teams of technical and economic specialists and other experts from the US and the host country. This collaborative approach allows host country participants to develop improved working familiarity with information collection, analysis, and evaluation methods that can be applied to subsequent energy planning activities.

The product of the comprehensive energy assessment is a joint report that describes the assessment process and sets forth the results of the analysis. It is not an energy plan, but rather a technical and economic analysis that provides sound information and an analytical base from which the host country can continue to develop its own national energy plans. Efforts are underway to ensure continuing support for national energy planning in participating countries.

In fiscal year 1980, energy assessments were underway in the Republic of Korea, Portugal and Argentina. Discussions are currently underway regarding possible assessments in additional countries for 1981, including Tunisia, Greece, and Venezuela. Venezuela is the first OPEC country

participating, and the United States will be fully reimbursed for DOE's work. Earlier reports have helped participating countries to refine their requests for assistance from international financial institutions and to identify ways to better use that assistance. In addition, these reports have helped establish a framework for priority assignment of current resources.

In addition to the Country Energy Assessment program, DOE is active in bilateral technical cooperation. DOE and Mexico have been cooperating in joint resource assessment of a geothermal field and in a cooperative study to determine the most economical methods to develop the reservoir. This is just one of the approximately 20 areas of possible cooperation identified under a Memorandum of Understanding on scientific and technological cooperation. DOE organized two AID-funded workshops in Brazil to acquaint government and industry people with US technology in coal and solar. The workshops and a $400,000 follow-on feasibility study are expected to lead to substantial commercial activity. DOE is assisting Saudi Arabia with the world's largest photovoltaic power system and other types of solar technology. In Venezuela, DOE will undertake research and development cooperation in several technical fields with initial emphasis on oil production and processing of heavy oils. Israel signed three agreements with DOE in 1980 providing for cooperation in solar energy, and India is working with DOE in the field of coal. DOE is establishing a sister-laboratory arrangement between the Solar Energy Research Institute (SERI) and the counterpart organization in Korea. DOE is negotiating with Gabon on a solar village demonstration to be managed by the National Aeronautic and Space Administration (NASA). With AID assistance, DOE managed an extensive and successful symposium on Oil Shale Development in Morocco. In Egypt, DOE manages a wind project; in Mali, installation of a photovoltaic system; in Indonesia a national energy research and development laboratory; and in Sudan, an energy planning training course for officials.

Trade and Development Program (TDP)

TDP facilitates the transfer of US energy technology through grant-financing of project planning services. This is done largely in middle-income and industrializing countries in the form of pre-feasibility and feasibility studies, technology workshops, and technology orientation visits to the United States. These and other programs inform decision makers and planners in developing countries about US

expertise in energy research and development and its applicability to their development needs. By promoting the transfer of US technological goods and services, TDP assists development efforts and increases the sale of US goods and services in energy and other key sectors. Energy projects have received the largest allocation of TDP funds. Furthermore, TDP has placed its emphasis on newly industrializing countries which have been negatively affected by quadrupling petroleum prices. Reducing dependency on imported petroleum, through more the efficient energy use and the identification of economical alternative fuels for cooking, food drying, transport, and other industrial uses, hase been the main focus of TDP programs.

The intensive research and development by DOE and existing private sector experts in the areas of oil shale extraction, coal gasification and combustion engineering, hydropower, and ultra high voltage transmission, etc. have played a large role in TDP programs. Through them, TDP has been able to assist a number of countries in meeting their rapidly growing energy demand at lower cost and with reduced burden on limited foreign exchange. At the same time, TDP is also working in oil exporting countries such as Qatar, which anticipate early depletion of their petroleum reserves, assisting them to develop natural gas deposits and to improve secondary oil recovery. TDP has conducted oil shale colloquia in Morocco examining the geology, known reserves, environmental impact, and political, economic, and financial costs of developing these vast resources.

In Brazil, TDP is currently assisting in a three phased program to identify projects and establish technical specifications in medium-BTU coal gasification, conversion of oil-fired utilities to fluidized-bed coal combustion, and apply solar energy for crop drying and industrial process heat. TDP has been assisting the electricity generation authority of Thailand in designing a number of large coal-fired generating plants and associated transmission lines for the Bangkok grid.

In addition to funding and technical assistance, TDP also arranges technical training programs in energy and related fields. These programs are designed to assist technicians and middle managers in strengthening the administration of utilities and public works ministries charged with managing energy programs in developing countries.

Overseas Private Investment Corporation (OPIC)

In 1977, OPIC inaugurated a program utilizing its political risk insurance and all-risk loan guaranty authorities to catalyze increased exploration for and production of hydrocarbon resources by the US private sector in the developing nations. OPIC is currently expanding these activities in response to growing interest by private US investors. To date, OPIC has issued 11 political risk insurance contracts on primary petroleum projects, 6 of them issued in FY 80. OPIC has more than 80 registrations for more than 30 companies in about 30 countries. OPIC, together with others, has devoted considerable effort in the development of several geothermal power generation projects in Asia and will continue these efforts to develop geothermal, solar and other forms of energy in the developing countries.

Peace Corps

The Peace Corps is focussing explicitly on energy related programs through joint efforts with AID. A $1.55 million grant from AID, awarded in 1979, is supporting a three-year program focused on village level energy.

The goal of this energy program is to assist developing countries in identifying needs and implementing alternative/renewable energy programs at the community level, and to develop the in-country capability to continue these programs. There are three main components of this program: an energy survey, programming activities (technical assistance), and training programs. By the end of the AID grant, the program will have:

-- developed an energy survey methodology and instrument to be used by host country nationals to measure energy resources, needs and potential in rural villages;

-- implemented the survey (by Peace Corps and other host country participants) in rural areas in a number of countries;

-- developed and implemented energy technology projects in rural villages in 15-20 countries by complementing and building upon survey activities, and other programming efforts; and

-- developed and implemented intensive, technical, skill-trained modules appropriate for Peace Corps, other development agencies, and host country use in a range of renewable energy technologies.

Overall, the program fosters a field-based working relationship between host country agencies and international development organizations -- in this case, Peace Corps, AID, and other donors who become involved. Host country commitment to alternative energy development is demonstrated through organizational support, working with counterparts on data collection and energy and forestry projects, and the support and involvement in programming and training efforts.

The second program is a $1.2 million, three-year program which started in late FY 80, and focuses on the critical role of forest resources as a renewable energy source. AID will supply resources to enhance Peace Corps' professional, technical, programming, and backstopping capability, while Peace Corps will recruit, train, and place forestry volunteers in collaborative project settings in up to 6 Peace Corps-AID countries. Goals of this effort include:

-- Develop, demonstrate, and make available for future transfer a range of tropical reforestation techniques, locally developed for local needs.

-- Provide personnel adequately prepared and committed to engage in community extension work and who are knowledgeable about appropriate propagation and silviculture techniques.

-- Provide seed money in amounts appropriate to the tasks at hand and available with reasonable rapidity and flexibility.

-- Demonstrate a community-based project design approach which takes into account the variability of local political, cultural and biological environments.

-- Provide training methods and curricula based on adult learning techniques to be tested, refined, and eventually transferred for host country use beyond the scope of the pilot project.

The development of strategies and energy technology training programs has had an impact on volunteers working in other types of activities. Peace Corps volunteers have used hydraulic rams in health programs, water/sanitation projects, and agricultural schemes to pump water where none was pumped before, or to substitute a renewable energy technology for a current pumping device that uses petroleum fuel. Volunteers in health projects have been trained to build mud stoves, which reduce accidents from contact with open fires and eye diseases from smoke, in addition to conserving firewood. Both education and vocational teachers have incorporated renewable energy technologies (fuel-conserving stoves, charcoal retorts, solar water heaters, village woodlots, etc.) into existing school activities and/or introduced them into their communities as secondary activities to their original assignments.

Multilateral Development Banks

The multilateral development banks provide the largest amount of financial assistance for energy projects. The MDBs are active in energy in three ways:

-- funding projects in power generation;

-- assisting developing countries in increasing their production of fossil fuels; and

-- starting programs in renewable energy, particularly firewood.

The MDBs have long supported projects in power generation which still represent a major proportion of MDB energy programs; 65% of planned IBRD lending in the energy sector in 1979-83 is expected to be in power generation; almost all regional MDB energy projects are in this area.

The MDB role in power generation reflects their comparative advantage in being able to provide the substantial amounts of capital required by projects of this kind.

The World Bank estimates that the total investment needed for an expanded energy program in the oil importing developing countries is $450 to $500 billion (in 1980 dollars) over the next decade. The financing of such a program will make heavy demands on domestic savings and external capital. The Bank will lend at least $13 billion over the five year period (Fiscal Years 1981-85) but under the expanded program to be funded by the proposed energy affiliate, it would spend an additional $12 billion. Current lending and desirable lending levels are outlined in Table III.A.3. Although the proposed energy affiliate is still in the planning phase, the Bank believes that the "desirable" level is both feasible and necessary to meet the energy needs of developing countries.

The World Bank, under current programs, will lend almost $4 billion for oil and gas development (up to $8 billion if the desirable program is approved) during FY 1981-85. In pre-development work, the Bank's objectives are to accelerate exploration where present levels are inadequate and to help prepare technical data to permit decisions on exploration possibilities while maximizing participation by private companies. In addition, it plans to support oil and gas production by maximizing the technical, institutional and policy support associated with its financing, and by assisting national oil companies in the design and implementation of adequate sector policies. The World Bank will lend $150 million during the same period for refinery construction.

In coal and lignite, the Bank will led $840 million over the FY 1981-85 period. The Bank will review existing geological reports of coal resources, finance basic exploration programs, provide technical assistance, finance feasibility studies, finance studies to identify prospects for increased use of coal and coal mining and finance transportation projects.

The World Bank will lend $200 million in FY 81-85 for alcohol production but with the realization that such programs must be approached with caution. In addition the Bank plans to incorporate renewable technologies where possible in small-scale decentralized generating facilities; biogas and solar components in rural development projects to meet household and community needs; the use of biomass to

Table III. A. 3

CURRENT AND DESIRABLE WORLD BANK ENERGY LENDING PROGRAM, FY 1981-85

(Million current US Dollars)

	CURRENT		DESIRABLE	
	LENDING PROGRAM	TOTAL PROJECT COST	LENDING PROGRAM	TOTAL PROJECT COST
Coal and Lignite /a	840	4,270	2,000	7,350
Oil & Gas				
Predevelopment	1,020	2,610	2,410	5,850
Oil Development /b	1,755	5,900	3,320	12,150
Gas Development /c	1,210	3,250	2,270	5,875
	3,985	11,760	8,000	23,875
Refineries	150	400	1,000	3,100
Renewables				
Fuelwood	425	850	1,100	2,200
Alcohol	200	2,100	650	4,550
	625	2,950	1,750	6,750
Electric Power	7,590	37,950	11,000	47,450
Industrial Retrofitting	0	0	1,250	3,825
TOTAL	13,190 /d	57,330	25,000 /d	92,350
Bank Share of Total Project Cost (percent)		23		27

/a Includes coal gasification projects.
/b Includes heavy oil projects.
/c Includes methanol.
/d Does not provide for any leading to China.

NOTE: On completion, the projects included in the Current Lending Program are estimated to produce (or in the case of electric power and industrial retrofitting projects, to save) energy equivalent to 1.62 million barrels of oil per day (mbdoe) or 5.3 percent of the developing countries' projected energy consumption in 1990. The corresponding estimates for the Desirable Lending Program are 2.9 mbdoe and 9.5%, respectively. Refineries, which add substantially to the value of petroleum projects but not to energy output or savings, are excluded from the calculation.

meet in-plant needs and industrial and agroindustrial projects; and the production of equipment to harness renewal energy. The bank Bank will consider lending on a limited basis for synthetic fuels including methanol from natural gas and coal gasification.

The United States has actively encouraged the development banks to become more involved in the areas of forestry and renewable energy and the World Bank has played a leading role. It is beginning to include fuelwood as an integral part of rural development projects and is considering a lending program that would support planting trees on 2.5 million acres over five years in 49 countries. While this is a modest objective when compared to the need, a doubling of the lending now planned for such activities -- from the $425 million orginally planned for FY 1981-85 to approximately $1.1 billion -- will be required.

Electric power remains the Bank's largest lending program in energy, reaching $7.6 million during the FY 1981-85 period. About 25 percent of this lending will go for hydropower development.

The regional MDBs have devoted considerable attention to the energy sector. As of May 31, 1980, Inter-American Development Bank (IDB) financing to this sector totalled $4.06 billion, (close to 25 percent of total lending) of which 92.5 percent was allocated to the electricity (including hydroelectricity) subsector, 6.7 percent went to the gas subsector, and the remainder (less than one percent) went to oil related activities. The $396 million energy sector lending in 1979 amounted to 19 percent of the total IDB portfolio for that year. IDB management is now in the final stage of preparing a proposed operating policy for the energy sector. In addition to continued consideration of electric power (especially hydroelectricity) projects, the policy will address nonconventional energy projects as well as the advisability of stepping up oil exploration and exploitation.

During the 1968-79 period, the Asian Development Bank (ADB) approved $1580.9 million in energy sector loans. This represented 23.8 percent of all Bank loans for that period. Of this amount, 58 percent was for the development of energy resources and 42 percent for improved utilization of energy supply facilities. During 1979, Bank lending to the energy sector amounted to $325 million for 10 projects, while technical assistance grants totalled $2.5 million for six projects. The main thrust of energy sector lending has been

directed towards the development of indigenous resources. Hydropower has received the largest portion of Bank assistance with natural gas, lignite coal and geothermal receving a substantial share of Bank funding. In the case of petroleum, the Bank believes it can best assist countries through projects aimed at utilization of discovered reserves by financing such downstream activities as distribution and refining operations. The Bank is presently undertaking a regional energy study to assess the energy needs of the region, the availability of energy resources, present and potential supply options and potential demand management opportunities, and the capabilities of the energy sector institutions.

In 1979, the African Development Bank (AfDB) energy sector lending amounted to $18.1 million. Two loans were made: one loan went to Egypt for rural electricification, and the other went to Guinea-Bissau for rehabilitation and extension of an electrification network to rural centers.

International Organizations

The United Nations and its agencies have become increasingly involved in energy activities, with emphasis on education, research, and financial and technical assistance. For example, the Division of Natural Resources and Energy provides assistance in formulating national energy policies and strengthening national energy institutions. The UN Development Program (UNDP) provides technical aid in petroleum exploration, support for research and development related to coal liquification projects, and assistance in promoting regional cooperation in energy activities. The Food and Agricultural Organization (FAO) is doing valuable work in wood fuels, forestry management and biomass production. Estimated UN system allocations (excluding the World Bank and IDA) for energy activities in the period 1978-81 are approximately $105 million. A major UN energy initiative strongly supported by the United States is the UN Conference on New and Renewable Sources of Energy in August, 1981, which aims at implementing measures to permit the development and use of these sources of energy. A primary objective of this conference is to encourage the adoption of alternative energy sources which are economically sound and sustainable.

Status of International Initiatives

Hemispheric Cooperation

A number of proposals have recently surfaced to promote hemispheric cooperation in energy. The one the US has followed with the most interest is the Venezuelan Inter-American Energy Program (IAEP). The IAEP concept was introduced by Energy Minister Calderon to help western hemisphere countries improve their energy position by reducing oil imports, developing indigenous and alternative sources of energy and improving their energy planning.

The proposal is still under consideration by Latin American governments. US and Canadian participation in the program has not been determined.

Brandt Commission

The Brandt Commission calls for an accommodation between oil producing and consuming countries to ensure an orderly transition from high dependence on increasingly scarce non-renewable energy sources. Prices reflecting long-term scarcities with predictable and gradual increases would play an important role in the world economy. Special arrangements, including financial assistance, are necessary to ensure supplies of oil to the poorer developing countries. Financing of exploration and development must be increased and include the development of renewable energy sources. Rigorous conservation and an international energy strategy are essential aspects of an orderly transition.

The Brandt Commission also calls for a global energy research center to be created under UN auspices, to coordinate information and projections and to support research on new energy resources.

III.A.3. HEALTH

The World Situation

Health problems in developing countries continue to impede development, especially among the most disadvantaged groups. Life expectancy at birth in developing countries is 51 years, far short of that in the western world. Malaria plagues at least 200 million people throughout the developing world, and estimates of the population infected with schistosomiasis range from 200 to 300 million.

Those who suffer most are young children and their mothers. Fifteen percent of all infants born in the developing world die before they reach their first birthday, and 30 percent die before age five. The major causes of mortality and morbidity among these vulnerable groups are not exotic tropical diseases, but common diarrheas and respiratory ailments complicated by malnutrition and the debilitating effects of frequent, closely spaced pregnancies.

Many obstacles prevent people in developing countries from enjoying the health taken for granted in more developed nations: inadequate and erratic harvests, poor marketing, and inadequate storage that contribute to food shortages; poor food preparation and eating habits; environments infested with disease vectors; polluted water and poor sanitary conditions that facilitate the transmission of disease; high fertility that weakens mothers and children; ignorance of the causes of poor health and the means to improve it; inadequate and inequitable distribution of health services; and poverty that leaves people unable to purchase the health-related goods and services that are available.

US Policy Objectives

Improving the health of the poorest people in developing countries is a fundamental part of the humanitarian and development programs of the United States. In addition to meeting humanitarian goals, health programs are a pivotal part of a comprehensive development strategy because of their importance to people's ability to learn and work to their full potential.

The United States has endorsed many international initiatives to improve health in developing countries. Foremost among these is the UN sponsored goal of "Health for All in the Year 2000". The United States also support the UN "International Drinking Water and Sanitation Decade." Underlying US support for these initiatives is the belief that the principal health problems of the poor in developing countries can be alleviated through combinations of:

- "primary health care", a basic package of preventive and curative information and services addressed to the most crucial health needs;
- convenient, clean, and safe water and sanitation services;
- special disease control programs (e.g. for malaria) where necessary and practical;
- health planning to distribute resources rationally and equitably;
- coordinated programs in other sectors, such as agriculture and education, to enhance their health benefits.

The United States has been a leading donor in health in developing countries. It contributes to efforts to improve health in developing countries through a number of multilateral agencies -- such as the World Bank, United Nations Children's Fund (UNICEF), and the World Health Organization (WHO) -- that support health programs in developing countries. In addition, US assistance in health is provided directly to developing countries AID funds health programs in all of the key areas, on both a pilot and comprehensive level. US health professionals provide technical assistance and administrative support to health programs in developing countries on a continuous basis through the Agency's resident field missions. Through AID, the United States is currently assisting dozens of developing countries to implement primary health care programs. US health experts participate in the design and implementation of these programs, and are concerned not just with the short-term goal of averting deaths, but the longer-term objective of institutionalizing health care systems that are self-sustaining and effectively meet the health needs of the poor. The Peace Corps sponsors hundreds of volunteers who

work in community level health and water supply and sanitation programs. Finally, through AID, the US Government provides support to many private voluntary organizations that assist developing countries in developing primary health care services, water supply and sanitation, and disease control programs.

Primary Health Care

Primary health care (PHC) is the top priority of the US Government in the health sector. The US emphasis on primary health care issues recognizes that urban oriented, hospital based health care is costly and inappropriate for many of the health problems that take a major toll in developing countries. Likewise, the Western health care model which relies on physician based care, is infeasible and impractical in many developing countries. By relying on active community involvement and locally trained and based auxilliary health care workers, primary health care provides a relevant, affordable, and effective alternative. The primary health care approach was endorsed by virtually all nations at the WHO and UNICEF sponsored conferences on primary health care at Alma Ata, USSR in 1978. A subsequent US initiated resolution of the UN General Assembly endorsed the conclusions of the Alma Ata conference and asked member nations to address health as an integral part of their development.

Health promotion and disease prevention are major thrusts of primary health care. Comprehensive primary health care generally includes: maternal and child care; nutrition surveillance and information; family planning information and services; basic medicines (such as oral rehydration and eye ointments) and first aid; management of simple respiratory ailments, diarrheal diseases, and skin infections. Many of these services can be provided by well trained paraprofessional workers with as little as six years of basic education. These health workers are usually selected from the communities they serve and receive support from upper level health personnel, who provide materials, supervision, and sources for referral. The priority accorded by the United States to primary health care is reflected in the increasing proportion of the funds that AID devotes to the health sector; in 1980, AID spent $54 million on primary health care. Also, approximately 15-20 percent of Peace Corps volunteers were involved directly and indirectly is such efforts.

Status of International Initatives

Many of the multilateral organizations that receive support from the United States are currently reshaping their programs to place greater emphasis on primary health care. The new Health Sector Policy of the World Bank strongly endorses Bank support for programs in this area. WHO is playing an active role in assessing the resource requirements to meet the goal of "Health for All" and will help coordinate the contributions of various donors. UNICEF is currently reviewing its activities related to primary health care, and is likely to lend greater support to it in the future. The United States will augment its bilateral support by funding primary health care through these organizations. Another major impetus will come from US support of non-governmental organizations to help them develop their capacity to carry out primary health care programs in developing countries.

Primary health care will remain the top priority of US assistance in the health sector. A greater proportion of US assistance -- bilateral assistance as well as aid channeled through multilateral agencies -- will go to primary health care. As experience is gained, the United States will shift its attention from the support of small scale programs to the support of regional and national programs. The United States will continue to help develop innovative health delivery mechanisms, but will give more emphasis to the following "second generation primary health care issues": training programs appropriate for community health workers; supply and management problems impeding effective delivery of services; maintaining a preventive focus on primary health care; reorienting hospital and physician centered systems to provide adequate supervision and referral; seeking alternative financing mechanisms that enable developing countries to sustain primarily health care programs independently, while placing a realistic burden on the government and consumer alike.

Water Supply and Sanitation

Two-thirds of the world's population lack access to adequate quantities of safe water, while only a quarter have access to sanitary waste disposal. The statistics among the poorest groups in developing countries, the targetted recipients of US development assistance, are still worse.

The United States supports the goal of the International Drinking Water and Sanitation Decade to bring safe water and adequate sanitation to the world's population by 1990. The United States will continue to finance programs to increase access to domestic water supplies and sanitation in developing countries. Direct assistance will be provided through AID and the Peace Corps, both of which provide technical assistance by experienced technicians based in a number of developing countries. The United States will also contribute toward achievement of the goal of the Decade by funding private voluntary organizations working in this area. US contributions to multilateral organizations, principally the World Bank and the United Nations group, including the United Nations Development Program (UNDP), will act as the major channels of US Government financing of water supply and sanitation activities.

The World Bank is the major donor in the field of water supply and sanitation. Its support for water supply and sanitation reaches almost one billion dollars a year. The World Bank has traditionally focussed on large, urban programs that have required substantial capital investments, but it is currently looking more closely at rural areas. UNDP will coordinate the Water Decade efforts at the country level, matching developing countries needs with available donor resources, and encouraging national water strategies that will place separate activities funded by diverse donor organizations in a comprehensive framework. UNICEF will continue to support small water projects, particularly in isolated rural areas in developing countries, a difficult task at which UNICEF has been extremely successful.

The United States will continue to focus on the rural poor in the developing world. Priority will be given to water supply and sanitation systems that can be easily operated and maintained by local communities and are affordable by the communities they are designed to serve. In short, community participation will be a key element in extended access to water supply and sanitation systems.

Through bilateral development assistance programs, the United States will provide improved water supply and sanitation principally to rural communities in developing countries. US bilateral programs will focus on: building the capacity of regional and national institutions to plan, construct, and maintain water supply and sanitation systems; training local personnel to maintain and repair the systems;

the construction and rehabilitation of low cost water and sanitation systems; hygiene education; promotion of local manufacture of pumps and other devices; and applied research to identify the most cost-effective technologies and program designs. Care will be taken to insure coordination with the World Bank and other donors. Improved water supply and sanitation systems will be incorporated, wherever possible, into comprehensive primary health care programs, to achieve a maximum effect on mortality and morbidity rates among infants and young children.

Disease Control

Communicable disease problems far exceed the capacity of individual developing countries or donor agencies to deal with them. Disease control endeavors often involve successful coordination among various donors, an approach strongly favored by the United States.

The United States endorses the inclusion of disease control efforts as an integral part of primary health care; however, in specific cases, characteristics of the individual country or the disease often require separate control programs. Wherever possible, basic immunizations are provided as part of a comprehensive primary health care program but where safe, practical, and cost effective technologies exist, campaigns against diseases such as malaria are needed.

The World Health Organization has been a leader in forging international collaboration in the fight against communicable diseases in developing countries. For example, WHO is currently coordinating international efforts, (including US contributions), to control a series of diseases that exact a heavy toll in developing countries. The United States has steadily supported this "Tropical Disease Control" effort which will enable developing countries to build their capability to launch research and field programs. In FY 1980 the US contributed $14 million to this program.

In addition to its support for WHO-sponsored efforts including those mentioned above and the successful campaign to eradicate smallpox, the United States -- with the assistance of the Center for Disease Control and various US universities -- has participated in programs for control of specific diseases in large regions of Africa as well as in other developing countries. US funding for research in

malaria and schistosomiasis has led to several breakthroughs that may eventually yield safe and effective measures at low cost for controlling the spread of these debilitating diseases. The Africa Bureau contributed $1 million to the Onchocerciasis Control Program (OCP) in 1980. This is a multilateral donor program with WHO as the executing agent. Finally, the United States supports the design of activities, in other sectors, such as irrigation schemes, to discourage the transmission of diseases.

Health Planning

Careful planning and attention to management issues is critical to successful of health efforts in developing countries. Scarce resources must be allocated efficiently and equitably to improve the health of the populations most in need.

The World Health Organization has played an active role in assisting developing countries in formulating country health plans that establish specific goals and priorities in the health sector. The United States, through AID, is complementing the activities of WHO by supporting the development of health planning and management capabilities in the developing countries themselves. The United States will contribute the health planning and management expertise of the private sectors, including universities, to improve of health planning and management skills in developing countries.

III.A.4. POPULATION

The World Situation

One of the major problems of our time is population growth. Even allowing for continued moderate slowdown in the rate of growth, the world population is expected to exceed six billion by the year 2000. This increase is equal to the entire world population in 1930. Ninety percent of this growth will occur in low income developing countries. With present trends, the two-child family will not occur worldwide until the year 2020, while the world's population will not stablize until the year 2090. At that time, the world population will be 10 billion, as compared to today's 4.4 billion. Rapid industrialization and urbanization, rising economic expectations, and population growth threaten to exhaust the earth's resources and environment. The increase in population places constraints on the improvement of living standards everywhere. In the developing countries, it frustrates efforts to end poverty, disease, malnutrition, and degradation that are widespread among at least a quarter of the world's people -- a billion human beings. Likewise, it confronts their political leaders with difficult if not impossible tasks and unfulfillable expectations.

Yet compared to other problems to which population growth gives rise--such as hunger and disease, deforestation and desertification, and political instability--population growth is a fairly tractable problem. Substantial progress has been made in slowing population growth in recent years. Moreover, there is growing evidence from various developed and developing countries that fertility can be reduced by determined efforts to provide family planning services and information in conjunction with efforts to build community and family support for family planning. Improving the social and economic status of women is particularly important.

During the last decade, understanding of the seriousness of the population problem has grown, and many developing countries have begun to address population issues. Indeed, for the first time, developing country government requests for population assistance now substantially exceed the existing contributions of population donors. The UN World Population Conference in 1974, the Conference on Primary Health Care in 1978, and the International Women's Conferences in 1975 and 1980 all called for provision of family planning services and information to all couples, as does the new International Development Strategy.

Safe, effective family planning also improves maternal and child health. The principal threats to health in developing countries are malnutrition and common diarrheal and respiratory infections, particularly among young children. Contaminated water and poor sanitation transmit many diarrheal and respiratory infections. These threats are greatly exacerbated by closely spaced births, which debilitate mothers and their infants and thus inhibit resistance to infection. Mortality from complications with pregnancy, childbirth, and abortion is also very high in developing countries.

The doubling of family planning practice in developing countries, outside China, by 1990 is an achievable goal. If this occurred, birth rates could drop from the current 35 per thousand to about 28 per thousand. As a result, the population of these countries would reach approximately 4 billion by the year 2020, instead of the currently projected 5 billion. It is also possible to aim at improving basic primary health care, particularly in maternal and child health. IDCA has roughly estimated the expenditures on "population" needed to do this -- assuming other development policies are conducive to smaller families and assuming "adequate" expenditures for other complementary health programs are made available.

At the present time, total spending for "population" is approximately $1 billion. This includes about $550 million by developing countries and about $450 million from international donors. While $350 million comes from the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development donors (OECD), this is only 2 percent of DAC Official Development Assistance. Of this the United States supplies about half. At this level of spending only about one-fifth to one-quarter of the couples of reproductive age practice family planning, 1/ and birth rates in the developing countries (outside China) are roughly 35 per thousand. To reduce birth rates to 25-28 per thousand

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1/ These data do not include reduced fertility resulting from breastfeeding or abortion (often illegal and dangerous). Source: Population Reference Bureau, using UN, United States Bureau of Census, and other data.

(still far from a norm of two children), IDCA has concluded that family planning practice must at least double. This means that at least one-half of all couples of reproductive age must have access to safe, effective, and affordable family planning services, and they must be motivated to use them. A doubling of population resources by 1985 is the minimum necessary to achieve doubling of family planning practice by 1990. This task would require about $2 billion in total spending (real dollars) including at least $1 billion in assistance. Doubling resources will achieve a doubling of family planning practice only if programs are made more effective and if people are motivated. Programs have already reached some of the "easier" acceptors, though many other programs have become more cost effective as they have expanded. On balance, the marginal cost per acceptor may rise, but modestly.

These efforts to expand family planning and basic health services will require a concerted international effort supported by UNFPA, WHO, UNICEF, the World Bank, country donors, and the concerned developing countries. Such efforts would be consistent with the recent declaration of the International Parliamentarians' Conference sponsored by the UN Fund for Population Activities (UNFPA), the UN Conference on Primary Health Care, and the UN Mid-Decade Conference on Women.

US Policy Objectives

Given the urgency of population pressure and related health needs in developing countries and growing developing country requests for assistance, US development efforts have the following goals:

-- extend high quality family planning programs, maternal and child health services, and information;

-- promote programs that build motivation for smaller and healthier families particularly by improving the social and economic status of women and giving positive incentives to couples that limit their family size;

-- strengthen political will by clarifying the extent and seriousness of the population problem on both the national and community levels.

This US commitment to addressing population problems is longstanding. US activities in the field of international population are coordinated by the National Security Council (NSC) Ad Hoc Group on Population Policy, established in 1974 and now consisting of 19 agencies. The NSC Group is chaired by the Assistant Secretary of State for Oceans, International Environmental, and Scientific Affairs (OES), with working sessions chaired by the State Department's Coordinator for Population Affairs. IDCA provides the principal voice on development assistance while State's role emphasizes that population is a central and far-reaching concern of US foreign policy.

US efforts to address population include development assistance but go far beyond that. The United States has sought to keep the population problem in the forefront of the world's agenda as a matter of urgent global priority--in order to develop a strong and sustained international consensus capable of supporting and influencing national leaders in their approach to population issues. The United States has pressed for increased attention to population in the UN International Development Strategy, at the Economic Summit, at OECD and DAC meetings, and at the UN Mid-Decade Conference on Women.

Progress with US Assistance Toward Meeting Objectives

As discussed in the last year's Development Issues Report, world-wide population assistance has been increasing over the past decade; DAC assistance reached $346 million in 1979 (the latest available data). But this still represents only about two percent of the total DAC development assistance of close to $15 billion.2/ Major donors include only about half the DAC countries, notably the United States ($185 million) and Sweden ($28 million). Germany, Japan, the Netherlands, Norway, and the United Kingdom each provide over $10 million annually.

2/ It is understood that much of the other 98% helps to increase motivation to use family planning services.

Ten years ago the United States supplied about 80 percent of all population assistance from DAC countries. The DAC contributions finance bilateral assistance, private organizations, and UNFPA. Beyond this, the World Bank provides another $100 million in population assistance. The Ford and Rockefeller Foundations add modest amounts from their own resources. Recently, after major growth in Japanese, Norwegian, and Swedish assistance and moderate increases from other bilateral donors, the US share dropped to about half. The United States remains, however, the leading contributor to UNFPA (supplying about one-fourth of its budget) and to other major private organizations in this field (International Planned Parenthood Foundation, (IPPF), Family Planning Inter-national Assistance (FPIA), Pathfinder Fund, and Association for Voluntary Sterilization (AVS).

In 1980 IDCA began a major effort to sort out the comparative advantages of donors in population assistance to insure that available resources are used effectively. The work plan included: assessing countries' efforts to deal with population pressures; estimating their requirements for assistance related to population; and reviewing the programs of the various development agencies (notably UNFPA, the MDBs, and AID) to determine their comparative strengths in assistance related to population.

IDCA began to examine efforts in the following fields: collection of basic population data; population dynamics (i.e., analysis of demographic data, consequences for development and population growth, and research on fertility determinants); communication and education; biomedical research in contraceptive methods; operations research and evaluation; and impact of US development programs on fertility.

While IDCA needs more information than is readily available on UNFPA and the World Bank, certain views on the strengths of the US bilateral program vis-a-vis these other organizations do emerge.

AID's Population Assistance

In 1980 AID concentrated its population assistance, $185 million (at the continuing resolution level), on the improvement and extension of family planning services. Host governments' family planning programs were supported in such countries as Indonesia, the Philippines, and Thailand. These programs featured family planning outreach services, often in conjunction with basic health services, in rural as well as urban areas. In many countries of Latin America, Africa, Asia, and the Near East, AID provided over $45 million in assistance through population intermediaries such as the International Planned Parenthood Foundation and the Population Council. AID's family planning delivery systems were designed to be cost effective and to concentrate on the problems of reaching remote rural areas.

AID also supported programs designed to do the following:

-- expand support for biomedical research to develop better family planning methods and better ways of assessing those methods in the field;

-- expand efforts to identify the combinations of family planning and development programs that work best and most inexpensively to reduce birth rates, through: (1) "operations research" -- controlled experiments to assess different family planning program approaches: (2) research and analysis of economic and social policies and family planning programs as they affect fertility; (3) trial programs involving commercial retail sales of contraceptives and medicines through the private sector; (4) expanded efforts to try out actual combinations of development and family planning programs, especially at the village level and focusing particularly on women's education and employment opportunities; and (5) "development benefits" for people who limit family size.

The United Nations Fund for Population Activities (UNFPA)

The United Nations Fund for Population Activities (UNFPA)is the major multilateral organization active in population. It supports programs in over 120 countries with an annual budget approaching $140 million. UNFPA is the most politically acceptable donor to some developing countries and offers great flexibility in programming. This is important in developing countries where bilateral assistance for population remains low. Since such countries tend to be those at a relatively "early" stage of family planning, UNFPA has a large role in the development of population policy, information, and demographic data. It is also committed to supporting family planning services whenever possible and allocates a large and increasing share of its budget for this purpose.

World Bank

The World Bank provides population assistance at an annual level of approximately $100 million. Historically, the Bank has focused on providing clinics and other infrastructure, particularly in Asia. At the present time, it is expanding its geographic and substantive focus.

Regional Banks

Although the regional development banks have yet to provide any substantial population assistance, the Asian Development Bank has acquired staff with expertise in population programs in order to expand its activities. The Inter-American Development Bank has expressed an interest in doing more in the field of population.

Peace Corps

The Peace Corps has concentrated volunteer efforts in the development of comprehensive projects in primary health care. Approximately 5000 health volunteers work in community based projects that integrate family planning, education, nutrition, maternal and child care, sanitation, and health education. Because volunteers work at the grass-roots level, they have a unique opportunity to help villagers examine health conditions that encompass all aspects of family and community life.

In the future, the Peace Corps plans to explore new initiatives and to strengthen projects in family planning education as part of their primary health care focus.

Status of International Initiatives

The United States, other donors, and UNFPA have expressed interest in heightening attention on the population problem through diplomatic channels and through increased program assistance. Assistance from other countries has grown from about $90 million in 1975 to about $150 million in 1980. Several donors have indicated interest in doing more. Moreover, the Venice Economic ' Summit Communiquè, the IDS resolutions from the 1980 UN Conference on Women, and other major international statements have stressed the need to focus more attention on the population problem. While this problem will require careful attention on financial, medical, and cultural aspects of population policy, the challenge is to act now and seize the opportunity to prevent the serious, if not tragic, impact of population growth on the social and economic development of developing countries.

III.B. CROSS SECTORAL EMPHASES IN DEVELOPMENT ASSISTANCE

III.B.1. WOMEN IN DEVELOPMENT

US Policy Objectives

The "Percy Amendment", added to the Foreign Assistance Act in 1973, directs that American aid be administered to initiate and strengthen programs, projects, and activities to integrate women more fully into the development process.

Specific attention to the role of women is important to sound development planning because women constitute half of the potentially productive labor force; they do much of the actual work of development already; and they have even greater responsibilities for feeding and caring for their families as more and more men migrate to urban areas, with income remittances to their families uncertain at best. An estimated one-third of all poor households in developing countries are now headed by women.

The experience of women in development shows tragic paradoxes. Although women work in any country, little attention has gone to increasing the productivity of this half of the population. Although women often grow most of the domestic food supply, they, along with their children, are generally the most severely malnourished. Although women are the principal teachers of children, female illiteracy rates usually far exceed those of men.

As more experience is gained from observing women in development projects, several key points emerge:

-- Women are often viewed by development planners primarily as wives and mothers and thus "nonessential" to the development process. The United States has encouraged that women be seen as contributors to as well as beneficiaries of development.

-- With women doing so much of the food production, many agricultural development programs have fallen short of their potential because they failed to give much attention to women.

-- In the "modern sector", women work longer hours than men but are usually paid much less. Since development projects often push more activities into the modern sector, such projects should help increase the productivity and welfare of women. This requires increasing access to productive resources, improving technology, and increasing educational and vocational training opportunities for women.

Specifically the U.S. policy objectives in regard to women in development include:

-- improving the income and economic productivity of women;

-- increasing education and training opportunities for women; and

-- improving the physical well being and social status of women by encouraging their participation in the design and implementation of development programs and projects.

Major Developments in 1980

The Women in Development Office

Since 1975 the main vehicle for implementing the Percy Amendment has been the AID Women in Development Office (WID). This office provides guidance on women in development issues, develops model programs and projects for women in cooperation with missions and other parts of AID, provides technical assistance to missions, supports international and developing country women's organizations that engage in development projects, and maintains a resource center for women in development materials.

During 1980 the WID office provided technical assistance to many AID missions in the field. At the same time, the central and regional bureaus of AID strengthened their WID activities by establishing committees and task forces on WID, conducting portfolio reviews, and holding training sessions for mission and Washington staff. In June 1980, the Administrator sent a cable to missions asking them to review their women in development activities and to choose a set of options to strengthen them. These options included: working more actively with host governments to promote women's participation in development activities; designing women's

components for existing and new projects that would emphasize income generation and employment activities for women; and providing increased assistance to women's organizations. Additional technical support was offered to missions to help them carry out this program.

A tracking system of annually updated mission reports on women in development projects and budgets is maintained. Evaluations of selected programs were carried out in 1980.

Types of Projects

To successfully integrate women into the development process, "women-specific" projects and projects incorporating "women's components" are necessary. AID is currently using this two track system.

"Women's component" projects are often the easiest way to test new technologies (such as new cookstove designs or solar pumps) and health and education delivery systems. These projects provide women in developing countries with technical skills and the resources needed to try out new techniques. "Women-specific" projects generally provide useful models for increasing women's participation through women's organizations. Examples of "women-specific" projects exist in a number of sectors:

-- craft cooperative in Bolivia and Lesotho;

-- women's small enterprise, technical assistance and and credit programs in Barbados, Peru, Ghana, Bangladesh and Costa Rica;

-- vocational training projects in the Dominican Republic,
Morocco and the Philippines;

-- credit and small farmer associations in Costa Rica, Bolivia, Peru, Guatemala, Paraguay, Ecuador and Kenya;

-- intermediate technology projects (which should receive more attention than they have thus far) currently underway in Latin America Cape Verde, and Upper Volta.

Since male migration to urban areas has left women with even more agricultural responsibilities, AID is giving major attention to women in agriculture, rural development, and resettlement projects. An AID rural development project in Jamaica includes a "women's component" -- special training programs for agricultural extension teams and assistance with vegetable cultivation on family plots. Projects incorporating women's components in Bolivia, Panama, Paraguay, Egypt and the Philippines, are improving women's productivity in livestock production and crop cultivation. While projects designed to strengthen women's roles in marketing and food storage and processing are still very limited, they are growing. Unfortunately, the role of women in agriculture is still not a part of conventional development thinking. To remedy this, the Women in Development office contributed a series of background papers to the FAO conference on rural development in 1979 and prepared a seminar for the BIFAD Board on women in food production in October, 1980. A similar activity was sponsored by the Development Support Bureau for representatives from Title XII universities. These seminars established the basis for a cooperative effort between the WID Office and BIFAD to integrate women into research projects, to develop a research agenda, and to utilize women with development expertise in the Title XII contracting process.

The second most important category of women's component projects is vocational and professional training. Women now join in participant training programs in U.S. universities to increase LDC institutional capacity. The most recent data in AID suggests that women account for 15% of those who receive such training.

Two-thirds of the women's component projects reported by missions are in health and family planning. Projects which only deliver services to women are not viewed as "women in development" projects because they do not increase women's income and earning skills or reduce the burden of women's labor, although they clearly provide major health benefits to women. Moreover, these health and family planning projects often train women in a wide range of health skills and increase their employment potential. Creative health and family planning projects also often include other activities such as management and leadership skills, child care and agricultural extension.

Research and data are essential to guide policy formulation and to show which are the most effective and least costly approaches. Development planners have long argued that programming for women is made difficult by the lack of accurate data. But with the World Fertility Survey and the recent WID Data Project at the Bureau of the Census (jointly sponsored by the Women in Development Office and the Office of Population), AID is accumulating the country specific data needed for country strategy statements and projects. The availability of data tapes will stimulate a new wave of research in university and development communities outside of AID. Efforts are currently being made to disaggregate data by sex, a change which would have a broad effect on AID activities.

A number of missions, specifically those in Ecuador, Paraguay and Sri Lanka, have done "status of women" studies to compile data on women in those countries. Two studies, one in Nepal and another in Mauritania, have given AID the kind of data on time use, market activities, and female participation in agricultural production and household decision-making needed to improve project planning. During 1980 the WID Office sponsored specific studies which provided useful project and policy background in various areas such as "Women in Forestry for Local Community Development," "Women and Energy" and the "Role of Women in Water Projects."

Peace Corps

The Peace Corps is currently active in bringing host country women into the development process.

Early steps at consciousness raising among Peace Corps staff were made in 1976 when the first Women in Development memo to field staff was issued by the Peace Corps Director. At the Peace Corps Country Directors' Conference in September 1979, field managers agreed that women-in-development projects should involve host country women in all the following areas:

-- identifying problems, assessing needs, and setting priorities;

-- planning and implementing development projects;

-- Assuming important, and permanent roles in development projects;

-- increasing their productivity and development skills to increase their access to employment opportunities.

Following that conference, the Peace Corps Director, in consultation with a specially assembled WID Oversight Committee, developed a strategy for integrating WID into three target areas: training, programming, and information and resources.

Training:

-- WID concerns will be integrated into all Peace Corps staff training as an integral part of the project design.

-- A draft manual is now being revised utilizing field experience from six countries: Malaysia, Thailand, Central African Republic, Swaziland, Honduras and Barbados.

-- During 1980, a series of 3-7 day workshops were held for Peace Corps volunteers. Country specific information was incorporated, and host country participants were active in the workshops.

Programming

Peace Corps Programmers have identified two types of women in development projects: those which focus specifically on women's needs, and other integrated projects which address men and women equally. Occasionally, integrated projects take on a more specific WID focus. One example of this is a Solomon Islands Rural Development Project which evolved into a handicrafts marketing project for the village women on the island of Guadalcanal.

Other examples of Peace Corps WID projects include: A cooperative project in Guatemala in which women play a major role in raising sheep and producing and marketing clothing. This project has led to: the establishment of marketing and accounting systems; the preparation of a merchandise catalogue; the use of acrylics in weaving; and the opening of a retail store.

In Senegal, a training program for women stresses the acquisition of skills such as child care, home gardening and small animal raising,
conservation of basic foods, household management, budgeting and basic record keeping.

A farm cooperative program employing female agricultural extensionists in Gambia was done in collaboration with the World Bank. Since this project began, farm cooperatives have been set up in 37 villages. The agricultural extensionists assist village women in obtaining credit for the purchase of seeds and teach them the concept of saving. Afterwards, women are assisted in purchasing work-saving equipment such as donkey carts and farm machinery.

In the annual Peace Corps Country Management Plan, Country Directors review each existing or new Peace Corps project to assure that they adequately address the needs of women in developing countries. Projects which do not meet the needs of women are redesigned or phased out. Peace Corps field offices also make efforts to program collaboratively with other development organizations and to enlist local women's groups in planning and implementing WID programs.

In addition a basic list of WID resource materials was developed for use as a reference library. An inventory of WID literature and resources available in AID has also been compiled. Regional WID bibliographies have been established along with a browsing library with WID materials for use by headquarters and overseas Peace Corps staff.

Status of International Initatives

The WID Office in AID has taken the lead in bringing the OECD/DAC donor agencies together to discuss women in development policies and concerns. A series of meetings has occurred, the next scheduled for Paris in January 1981. Discussion topics range from improvement of communication between LDC/women's organizations and donor representatives to integration of women's components into major development projects. A Donor Document Exchange
has been established and case studies are being collected.

AID's preparation for the UN Conference on the Decade for Women was a major focus of the last year's work. Task forces on the three key substantive topics of the Conference -- employment, health, and education -- were established and background papers were written. Additional materials on migration were prepared when it emerged as an important issue on the Agenda.

AID assisted with the planning of the unofficial NGO Forum and enabled many developing country women to participate in it. In addition, AID sponsored other related activities including "The Exchange", which was a series of development workshops designed to strengthen the communication between women in developing countries and donor agencies. Research material for the Copenhagen Conference was made available to various groups including the heads of all delegations. Representatives from IDCA and AID were on the official US delegation.

Unfortunately the inclusion of language on assistance to Palestinian women through the PLO caused the United States, Canada, Israel, and Australia to vote against the Programme of Action adopted in Copenhagen. However, the national strategies section was passed by consensus, as were numerous resolutions including some initiated, cosponsored or strongly supported by the U.S. on women as refugees, the Water Decade, family planning, and rural women. The Programme of Action reinforces the need for greater participation by women's organizations, looks at issues of unremunerated work and emphasizes continuing problems in the areas of legal rights and literacy. Food production and consumption, migrant women, and the female headed household were listed as priority items for attention. This international agenda was supported by the majority of developing country governments. Other important advances of the Copenhagen Programme of Action include recognition of the participatory role of women and support for women's grass root organizations.

As the UN Conference in Copenhagen clearly illustrated, the UN agencies have all examined the impact of their programs on women in developing countries. The World Bank has focussed on integrating WID concerns in the education sector, under a WID administrator. Their analytical review of projects, "Recognizing the 'Invisible' Woman in Development: The World Bank's Experience," concludes that

"better understanding of women's roles and activities minimizes waste and inefficiency and permits women to be more clearly identified as potential beneficiaries of projects. Where appropriate, a project's effects on men and women should be considered separately."

The United Nations Voluntary Fund offers small loans to women's projects throughout the world. Other European donors have given attention to the problems of women in development and, through the DAC mechanism, have cooperated in pooling information and case studies.

The preamble to the new International Development Strategy for the Third United Nations Development Decade notes that "a substantial improvement in the status of women will take place during the Decade." The IDS also stresses that economic growth, productive employment and social equity (for men and women) are fundamental aspects of development.

III.B.2. SCIENTIFIC AND TECHNOLOGICAL COOPERATION

This section focuses on bilateral and multilateral efforts supported by the United States to:

-- apply existing scientific and technological advances to development problems;

-- encourage research on development problems to advance the state of the art and increase attention to areas that have not been adequately addressed; and

-- build research capacity in the Third World.

Many of the US cooperative efforts in science and technology focus on the overall assistance priorities--food and agriculture, energy, health, population, and finding environmentally sustainable paths to development. The discussions in this report on those subjects include many examples of scientific and technological cooperation.

Problems sometimes arise in applying developed country advances in developing countries. Technologies used in developed countries sometimes are not "appropriate" for transfer, because of the different labor to capital ratio in the Third World. The design and transfer of capital saving technologies appropriate to developing countries with abundant labor but scarce capital, and the potential of such technologies for employment generation for the poor majority in low income countries, are of special concern to the United States. Initiatives in capital saving technology are described in another section of this report.

Here attention is focussed on initiatives designed to address three institutional problems faced by the Third World in attempting to use scientific and technological research to solve development problems.

-- Developing countries need information on and access to existing scientific and technological achievements that they can use.

-- Most of the world's research and development takes place in the industrialized countries; thus, it has been oriented toward their problems. The ecological systems, economic needs, and cultures of developing countries often present quite different problems.

-- The developing countries have relatively few citizens trained for scientific and technological research. Those who have been trained, some to quite sophisticated levels, often lack institutions in which they can work effectively.

Major Developments in 1980

Although a year has passed since the UN Conference on Science and Technology for Development (UNCSTD), was held in Vienna, it is still too soon to make an assessment of the impact of that Conference on the pace of development or the quality of life for people in developing countries. In the long run, the major test of success is likely to be whether increased priority is given to strengthening the scientific and technological capacity of the developing countries, and whether they are able to move quickly and practically in this area to enhance their problem solving capacity and thus make more effective use of the resources available to them.

International Organizations

One major result of the Vienna Conference was the creation of the UN Interim Fund for Science and Technology for Development, with a target of $250 million for a two year period. By the end of 1980, the Fund had raised about $45 million in contributions. The US pledged to provide 20 percent of the total up to $10 million, but at this time no funds have been appropriated by the Congress for this purpose. Significant contributions came from Italy, the Netherlands, Sweden, Norway, Switzerland, Austria, Denmark, Finland, and Saudi Arabia. Several other members of OPEC were still to be heard from. West Germany pledged $ 5.7 million for specific projects of the Fund.

The level of interest among potential recipients is illustrated by the number of contributions received from developing countries and by the submission of approximately 800 projects for consideration by the Fund management, which is part of the UN Development Program (UNDP) structure. These proposals cover a wide range of subjects, including:

-- science and technology policies and plans for development, institutional infrastructure, and technological choice and acquisition;

-- scientific and technological information systems;

-- human resources development through education and training;

-- the strengthening of research and development in and for developing countries and their linkage with the productive system;

-- energy research and development; and,

-- expansion of technological choices.

In November of 1980, the first 19 projects totalling $15 million were approved.

The experience of the Fund thus far suggests that the UNCSTD succeeded in stimulating the interest of developing countries in enhancing their scientific and technological capacity and applying it to development problems. Donors, however, have not in general been prepared to commit large amounts of additional funds for this purpose.

Both conclusions will undoubtedly affect the work of the Intergovernmental Committee on Science and Technology for Development established by the United Nations to follow up the deliberations and recommendations from Vienna. During 1981, the Committee will consider an operational plan prepared by the Secretariat to implement the UNCSTD plan of action. As part of this process, a group of experts is currently examining long range financing arrangements for science and technology for development. Developing countries continue to press for substantially higher funding in this as in other areas. If the operational plan and funding proposals are ready in time, they should be on the Agenda of the General Assembly in 1981. In addition, the Intergovernmental Committee has requested a report from the Secretariat on harmonizing the efforts of the UN system in science and technology, which is expected to be considered on the same agenda.

Negotiations on a Code of Conduct for the Transfer of Technology were continued during 1980 under UN Conference on Trade and Development (UNCTAD) auspices; a fourth three-week session was held and another is scheduled for March-April 1981. While progress has been made, much remains to be resolved, notably the crucial question of whether the Code is to have the force of law as the Group of 77 wishes, or simply be a declaration of good practice. While believing that the Code would constitute an important instrument for promoting

the international transfer of technology, the United States generally views it in the broader context of flows of trade, investment, and technology, and of the needs of all countries to strengthen technological capabilities. The United States wants to assure that the Code does not serve to diminish economic and legal incentives for the generation and transmission of technology.

Consultative Group on International Agricultural Research

One of the major recognized successes in the application of science and technology to developing countries has been the work of the research centers sponsored by the Consultative Group on International Agricultural Research (CGIAR). A major concern has been whether the very rapid growth in the program of these centers could be sustained, or whether donor contributions might fail to keep pace.

Late in 1979 the CGIAR reached a consensus on a financial plan which was expected to permit about 10 percent real growth overall holding older research centers to about 3 percent, allowing newer centers to grow to their planned sizes, and adding about one new program per year. The amount pledged at the Manila session of the Consultative Group in October 1980, the first CGIAR meeting in a developing country, was approximately $140 million. This is approximately 4 percent short of the nominal target for the year in the funding plan. (The US pledge was $35.8 million, but will be limited to 25 percent of the final total.) More serious, however, is the rate of inflation in the countries where centers are located, which proved to be, on the average, more than twice the 9 percent on which the plan was based. As a result, overall real growth in the system in 1981 will be less than 5 percent, half of the target. The CGIAR decided to conduct an internal review of programs, organizations, and priorities during 1981. It is now clear that the review committee appointed by CGIAR Chairman, Warren Baum of the World Bank, must reconsider the consensus reached only a year ago about future levels of program growth for the centers under the CGIAR aegis. At the Manila meeting, the Group also declined to offer its sponsorship to the International Center of Insect Physiology nd Ecology (ICIPE), located in Nairobi. The members judged that ICIPE was fully worthy of international support but that its purposes went beyond those of the Consultative Group.

The CGIAR was the recipient of the King Badouin International Development Prize for having made a significant

contribution to the development of the Third World and to the solidarity and good relations between industrialized countries. This award recognizes the leadership of the CGIAR and the programs it sponsors for the application of science and technology to development problems.

Bilateral Assistance

US plans to establish an Institute for Scientific and Technological Cooperation (ISTC) were presented at the UNCSTD as the primary response made by this country to the needs expressed at the Conference. There was enthusiasm for the US initiative among delegates from developing countries; however, funds have not been appropriated for the ISTC. The Congress instead provided $12 million in FY 1981 for new and innovative science and technology cooperation to be managed within AID. IDCA and AID have moved to use these funds to enhance the effectiveness with which science and technology is applied to the problems of developing countries. A Science Advisor to the AID Administrator and the IDCA Director was appointed in December 1980. The Advisor's responsibility includes developing new activities made possible by the $12 million appropriation, advising on policies related to science and technology, maintaining liaison between the United States and developing country scientific communities, and encouraging US domestic agencies to make their research and development activities more relevant to developing country needs.

In addition to the areas in which ISTC was intended to work, science and technology has played a growing role in AID programs. The scale of that role is evident from Table III.B.1 which shows estimates for FY 1980. Activities involving the application of science and technology are not included for that reason alone; to have done so would have meant covering almost all AID programs. For this purpose, activities identified as science and technology are those concerned principally with discovering new knowledge or better ways of doing things, including modifications for specific application; test or pilot applications; disseminating knowledge and technology to users; building the capacity of institutions and training individuals to perform these functions; work on science policy; efforts to apply high technology to development problems; and programs to develop capital saving technology.

The activities described are those with primary focus on the physical sciences; AID sponsored research in the social

TABLE III.B.1
SCIENCE AND TECHNOLOGY IN AID PROGRAMS, FY 1980

Estimated Dollars in Thousands

	Science and Technology (Includes Research)			Research			Research as percent of S&T
	Regional	Central	Total	Regional	Central	Total	
Food & Nutrition	100	54	155	45	49	95	61%
Health	12	9	20	-	8	8	40%
Population	-	13	13	-	7	7	54%
Energy	16	9	25	2	1	3	12%
Other	7	10	17	2	-	2	12%
TOTAL	135	95	230	49	65	114	50%

sciences in subjects like public administration, policy analysis, and demography are not included. Most AID projects, however, are multidisciplinary in nature to assure relevance to a particular country's needs and circumstances; economists and other social scientists are often part of the team working on a project in the physical sciences.

As the table indicates, two thirds of AID's science and technology activities in FY 1980 fell in the category of food and nutrition. The proportion of research in that category is even higher. The substantial research activities listed for Regional Bureaus are primarily concerned with strengthening the institutional capacity of developing countries in agricultural research. Half of all AID field programs in science and technology related to food and nutrition, including half of the field research, are in the Africa Bureau, reflecting the critical need of African countries for an institutional base from which they can reverse the downward drift in per capita food production. Science and technology, particularly the experimental application of renewable energy technologies, is a major part of AID's energy program.

Unfortunately, comparisons with earlier years are not possible because data were not kept in this form. Fiscal Year 1981 and later years should show significant growth, depending on appropriation levels.

Some US domestic agencies have also been involved in bilateral cooperation science and technology programs; Department of Agriculture (USDA) has been quite active in this regard. Under authority granted by Section 1458 of the Food and Agriculture Act of 1977, USDA has expanded involvement with agricultural scientific institutions both in developing and developed countries and assists US colleges and universities to develop their capabilities to participate in these programs. During FY 1980, there were scientific and technical exchanges with 21 countries, involving 148 foreign and 265 United States scientists from government, universities, and the private sector.

In the People's Republic of China (PRC), cotton breeding and grain handling teams have served as catalysts for increasing agricultural trade between the US and PRC. Medicinal exploration teams are providing medical science with new sources for fighting cancer, and plant specialists are identifying new germplasm for improving domestic varieties of soybeans. Collaboration with Mexico in a program for cultivating guayule as a source of rubber strengthens the US relationship with a neighboring country. Another important activity is the collection of biological control agents for fire ants indigenous to Brazil.

From the 1950's through the 70's, the US Government helped establish teaching and research institutions in developing countries. Today, many of these institutions offer opportunities for cooperative research with US universities. To that end, USDA recently issued research grants to nine US universities for collaborative research with foreign institutions in countries such as Brazil, Mexico, Nigeria, and Colombia.

Research under these agreements will be on subjects including: economics of energy from biomass, plant germplasm, crop and animal production, large-scale mechanized agricultural systems, plant and animal diseases, small farm technology, irrigation, integrated pest management, and tropical and sub-tropical agriculture.

In September 1980, the Science Advisor to the President visited four African countries, accompanied by senior officials from a number of agencies, including the Department of State, Department of Agriculture, the National Aeronautics and Space Administration, the National Science Foundation, the National Institute of Health, and the National Oceanic and Atmospheric Administration, and by the President of the National Academy of Sciences, Ohio State University and the University of Rochester. During stops in Zimbabwe, Nigeria, Kenya and Senegal, memoranda of understanding for cooperation in science and technology were signed. The specific topics addressed were in areas of priority identified by the host countries -- typically agriculture and fisheries, energy, health, remote sensing, management, and manpower training. Agreements for projects which had been worked out earlier were signed, and new areas of cooperation opened for further work. The agreed and planned activities will be financed by AID, the US technical agency involved, the host country, or by a combination of sources. Detailed follow-up is underway to ensure that full advantage is taken of the cooperative

activities identified during the trip.

The interest in remote sensing in each of the four African countries visited by the Science Advisor to the President is shared by developing countries in general. They recognize increasingly the potential of this instrument for assessing the status and value of soils, appraising water resources and forests, identifying major environmental problems, and measuring their impact.

During 1980, the United States moved closer to implementing its decision to establish a remote sensing system with substantial private participation. This system will be coordinated with the several systems planned by other countries or groups of countries. As the system is developed, it is important to make certain that it meets the technical requirements of developing countries and that those countries have open and affordable access to remote sensing data useful for development purposes.

III.B.3 CAPITAL SAVING TECHNOLOGY

In broad terms, capital saving technology is the subset of appropriate technology which emphasizes low financial cost. The United States has advocated increased use of capital saving technology in development assistance for many years. The concern for use of capital saving technology cuts across and undergirds US sectoral priorities in food and agriculture, energy, health, and population. While capital saving technology is not a panacea, the United States believes that countries with abundant labor, but scarce capital and foreign exchange, may benefit substantially from adoption of capital saving technologies appropriate to their aspirations, resource and technical endowments, physical environments, and cultures.

Use of capital saving technology in building physical infrastructure means light equipment and greater focus on employment, production, and the needs of poor people and small firms.

Use of capital saving technology in providing services assumes low financial outlays and services that are accessible both physically and financially to low income people.

Capital saving technology generally has the following characteristics:

-- it combines labor and capital in relation to their relative prices and scarcities;

-- it involves the local community in project design and execution;

-- it is physically and financially accessible to the poor; and,

-- it generates self-sustaining and self-financing growth among low-income people.

Increasing employment opportunities while conserving capital assumes even greater importance given current economic and demographic trends. Slower growth in the developed countries is likely to affect the availability of capital from key donors. At the same time, developing countries increasingly will face rapidly rising external payments imbalances and debt service obligations taxing their

own resources for development. Increasing population throughout the world, particularly in developing countries, raises the prospect of increasing unemployment and underemployment.

There are institutional obstacles to more rapid progress with capital saving technology approaches. Government agencies both in developed and developing countries usually think in terms of large-scale projects and centralized decision-making; projects employing capital saving technology are often small-scale and involve local participation in decision-making. Other constraints are different views among host governments on political priorities and cost-effectiveness. A constraint for both external agencies and host governments is the staff time required to identify, design, implement, and evaluate capital saving technology projects. The US, and the multilateral donor agencies, to which the United States makes contributions, have made considerable progress in identifying and overcoming these institutional constraints and are continuing to work to remove impediments and strengthen incentives to use capital saving technology.

AID, the Peace Corps, the UN agencies, and the multilateral development banks currently support research and development of new capital saving technologies, the testing of prototypes, and dissemination of information on their findings. There is increasing recognition of the important role that commercial production and distribution play in accelerating the widespread adoption of new and appropriate technologies. Examples are the World Bank's support for pilot projects testing the commercial feasibility of new technologies, such as solar energy ponds, and the International Rice Research Institute's work with manufacturers to promote dissemination of appropriate low-cost farm equipment.

Major Developments in 1980

US Bilateral Assistance

The United States supports capital saving technology in developing countries through several channels. Some agencies, such as the Peace Corps and the Inter-American Foundation, are mandated to engage primarily, or exclusively, in small-scale technical assistance at the community level. AID devotes a significant portion of its funds, approximately $200 million in 1980, to capital saving technology projects.

AID's program is, in part, implemented through private voluntary organizations assisting community self-help activities. AID funds also support certain multilateral activities, such as the agricultural research centers coordinated by the Consultative Group on International Agricultural Research (CGIAR).

In Thailand, AID has started a project to develop and test specific renewable energy technologies in order to evaluate their technical, economic, and cultural feasibility. This project will provide Thai decision-makers with information to assist in developing an energy policy for rural areas emphasizing nonfossil fuel sources. Pilot projects in a number of villages will increase the availability of nonconventional renewable sources of energy.

In the Caribbean, AID is providing support to the Caribbean Development Bank (CDB) for the establishment of a special unit in the CDB to collect, catalogue, and disseminate technological information throughout the region, and create a special fund for credits to local businesses for projects incorporating applied technology and stressing employment generation among unskilled and semi-skilled workers.

AID has also taken measures to strengthen its internal agency coordination on capital saving technology. AID recently established an Intra-Agency Steering Group on Employment Generation and a Small Enterprise and Employment Unit (SEEU). The Steering Group and SEEU will promote increased emphasis on the interrelated concerns of small enterprise development, capital saving technology, and productive employment opportunity generation. One of the SEEU Unit's principal goals will be to promote the use of capital saving technology by supporting small-scale enterprise development off the farm. In addition, AID will promote the use of capital saving technology in its more traditional sectors -- agriculture, energy, population, health, etc.

The Peace Corps, in collaboration with AID, is developing grass-roots programs in appropriate technology aimed at transferring a number of renewable energy technologies to the village level. In other areas, such as nutrition, health, and food production, Peace Corps volunteers are involved in designing pilot programs, doing field tests, and transferring relevant technologies.

In Costa Rica, the Peace Corps has initiated an innovative project with the Costa Rican Technological Institute applying appropriate technology principles. The project emphasizes technologies in the fields of renewable energy resources (solar, biomass, wind), metal-mechanics, metallurgy, and management of soil and wood resources. The first year was dedicated to designing and testing various machinery prototypes and establishing a library at the Institute's Technological Information Center. In the second year of the project, public education on the application of appropriate technology was emphasized. Volunteers worked as extension agents providing technical assistance to small-and medium-sized cooperatives, industries, and community groups.

The Peace Corps is working actively with US and international agency planners in preparing for the United Nations Water Decade (1981-1990). The Peace Corps is advocating use of simple, standard technologies, community participation and health education, in conjunction with water supply projects. Recently the Peace Corps distributed the experimental "robovalve" to volunteers in 16 countries for field testing. The robovalve is a low-cost water control device with few moving parts, which shuts itself off, thus conserving water. It was developed under AID sponsorship and distributed cooperatively with AID.

Multilateral Development Banks

Total lending by the multilateral banks for projects which included use of capital saving technology was approximately $4.6 billion in 1979 (the latest year for which statistics are available).

The multilateral development banks, with US encouragement, have promoted the principles of capital saving technology in creative ways. For example, the Inter-American Development Bank's (IDB) Program to Finance Small Projects channels loans of up to $500,000 to small local groups and provides technical assistance to assure the viability of projects. By using carefully chosen intermediaries, the Program avoids inordinate demands on IDB staff time. The program's emphasis on evaluation has potential benefit for the IDB's regular lending program. Some of the Program's most successful projects may be replicated and increased to the scale of the Bank's regular programs.

IDCA, in cooperation with the Department of Treasury, has developed procedures designed to ensure that the MDB's focus attention on the possibilities for employing capital saving technologies in project preparation, project review, and pre-investment studies. As one part of the Multilateral Development Bank Project Review System, MDB project proposals are reviewed specifically to identify projects in which capital saving technologies can be successfully applied. These reviews are given to the US Executive Directors as a means of insuring that capital saving approaches to specific development goals are considered.

Coordination of US Supported Activities

In 1980 several steps were taken to strengthen coordination of US government efforts and to encourage greater emphasis on capital saving technology. In June 1980, IDCA submitted a statistical report on funding levels for capital saving technology in US supported assistance programs. Following that effort, IDCA undertook a review of further steps the US could initiate to increase the use of capital saving technology by the assistance agencies it supports.

One conclusion of the review was the need to improve communication within the US Government. To that end, an interagency group was formed to meet on a regular basis to exchange information and consider ways to strengthen both bilateral and multilateral efforts to use capital saving technology.

UN Agencies

International Labor Organization (ILO)

For many years, the ILO has advocated consideration of the employment impact of various types of technology. The 1976 World Employment Conference called on the ILO to establish a working group with employer and worker representation to examine possible actions in appropriate technology, considering the implications for employment, vocational training, and income distribution. The working group gives management, labor, and government an opportunity to express their concerns, identify common interests, and suggest directions for concerted action. The most recent

meeting of the Tripartite Working Group was held in December 1980. Among the items on the agenda were "the role of employers and workers in promoting the choice and application of appropriate technologies" and "a role for the ILO in strengthening the technological capacities of developing countries."

UN Industrial Development Organization (UNIDO)

Following its International Forum on Appropriate Industrial Technology held in India in November 1978, UNIDO undertook publication of a series of monographs on specific industries. Monographs published in the past year cover small pulp mills, agricultural machinery, energy for rural requirements, textiles, food processing, drugs and pharmaceuticals, light industries, and rural workshops. These monographs are intended to improve understanding of the concept and use of appropriate industrial technology, thereby furthering cooperation among developing countries and between developed and developing countries. In 1980, UNIDO continued work on several technical assistance projects using appropriate technology. Areas covered included production of salt, hydroelectric power and cement, and projects metal working techniques.

UN Interim Fund for Science and Technology for Development UNIFSTD)

The Fund, administered by the United Nations Development Program, resulted from the UN Conference on the same subject (UNCSTD) held in Vienna in August 1979. The Fund became operational in 1980. Among its concerns are the choice of technology and strengthening linkages between the research and development institutions and productive systems in developing countries. The Fund supports activities ranging from the development of basic research through prototype fabrication and testing to commercial production of technologies.

Private Voluntary Organizations

With financial assistance from UNIDO, UNDP, and some Western donors, a private non-profit group sponsored a "Technology for the People Fair" in Geneva, in September 1980. This week-long trade fair was designed to attract entrepreneurs with small businesses from developing countries; about one-half of the 200 exhibitors were developing country firms.

The United States was represented by the Department of Commerce, the Solar Energy Research Institute, and eight private firms. The event's benefits included: bringing in the private sector; attention focussed on capital saving technology by publicity surrounding the event; and the opportunity for government development assistance agencies to demonstrate and provide information on their activities supporting capital saving technology. Another similar trade fair is planned for Mexico City in November 1981.

III.B.4 NATURAL RESOURCES AND ENVIRONMENTAL MANAGEMENT

The main objectives of US development policy with regard to resource and environmental management are to assist developing nations both to build the institutional capacity required for assessing their critical natural resources and environmental problems, and to develop the institutional and scientific infrastructure required for managing these problems. Other important objectives are to: provide assistance to developing country governments for programs addressing problems in natural resource management and use; assure that all development activities financed or supported by the US Government are environmentally sound and contribute to economic development; and to promote environmentally sound development projects funded by multilateral and bilateral funding organizations.

Major Developments in 1980

Since the first United Nations Conference on the Human Environment, held in Stockholm in 1972, the environmental and natural resource problems facing the world and the particular problems of the developing countries have been more clearly defined. By and large, these developing countries are situated in the tropical zones; however, because their environments are so different from most developed countries, scientific knowledge about these environments is limited.

The special problems these nations face were documented in a series of landmark reports released in 1980:

-- "The Global 2000 Report to the President: Entering the Twenty-First Century," prepared by the Council on Environmental Quality and the Department of State, which projects probable changes in the world's population, natural resources, and environment through the end of the century.

-- "The World's Tropical Forests: A Policy, Strategy and Program for the United States," prepared by an interagency task force under Department of State leadership and sent to the President in 1980.

-- The "World Conservation Strategy," prepared by the International Union for the Conservation of Nature under the sponsorship of the United Nations Environment Program (UNEP) and the World Wildlife Fund, and in

collaboration with the Food and Agriculture Organization of the United Nations (FAO) and the United Nations Educational, Scientific, and Cultural Organization (UNESCO).

-- "Research Priorities in Tropical Biology," prepared by a special committee of the Assembly of Life Sciences of the National Research Council.

The international and governmental organizations sponsoring these reports share a growing concern about the future of the world. The reports highlight an array of problems related to population growth, resource availability and management, and environmental contamination which pose new challenges for the global community. Significant efforts are already being made by nations to confront these problems. The scale and growth of these problems, their interaction and mutual reinforcement, and their collective impact on economic and social progress have generated a new sense of urgency.

The major areas of concern outlined in these reports are:

-- losses of soils and farmland in such magnitude that the earth's capacity to support its populations with food, fuel, fiber, and the other necessities of life has been significantly reduced;

-- increased cutting of trees and shrubs for fuel (over 80% of all wood used in the developing countries and over half of all wood cut in the world each year is burned as fuel) and agricultural expansion have resulted in severe deforestation, soil erosion, desertification, and depletion of timber supplies worldwide;

-- increased siltation of reservoirs has reduced electricity supplies, irrigation, and drinking water, increased flooding of settlements and crop lands, and depleted ground water recharges due to deforestation, and soil erosion; and

-- extinction of plant and animal species at a rate unprecendented in human history, resulting in the loss of genetic diversity on which the breeding programs necessary for the protection and improvement of cultivated plants and domesticated animals depend.

These reports are currently being evaluated within the US Government, (along with other recent studies such as the Brandt Commission Report), as a basis for determining how the US response to the spectrum of identified problems and needs can be strengthened. Over the past year, increasing emphasis, attention, and resources have been allocated to natural resource and environmental programs by AID, the Peace Corps, and other government agencies.

Bilateral Assistance

Regional Efforts and AID and the Peace Corps

The following environmental and natural resource strategies, which are evolving as a component of an overall development strategy in each of the four AID geographic regions, are designed to meet regional and country specific needs. Many of the projects involved use of Peace Corps Volunteers in their implementation.

The Asia Bureau is integrating energy, forestry, and environmental concerns into the design of development projects. Activities underway include:

- -- a survey of firewood and kerosene use in Indonesia;
- -- community livestock and pasture management activities in Nepal;
- -- demonstrations of renewable energy technologies for rural village energy supplies in the Philippines, Thailand, Indonesia, and India; and
- -- establishment of an environmental center in Indonesia.

Various approaches are being used to address both the supply and demand sides of the deforestation problem. On the supply side, village woodlot, watershed management, and soil conservation interventions are included in projects in Thailand, Sri Lanka, and Nepal.

The Africa Bureau is responding to the environmental and natural resource management needs of the Sahelian states; major natural resource projects are underway in each Sahelian country. AID has also funded renewable energy and resource inventory projects and a diverse set of activities designed

to strengthen voluntary sector programs in this field. Activities in progress include:

- -- community forestry project in Guinea, scheduled to begin in early 1981, using joint decision-making by the community and the government over the planting of fast-growing, multi-purpose trees and plants for woodlots, forage, "living" fences, and erosion control;

- -- recently approved project in Mauritania including plans for dune stabilization, fuelwood production, and training for national forestry personnel -- both lower level technicians and personnel eligible for advanced training. Another Mauritanian project -- Renewable Resources Management -- will train approximately 40 Mauritanians in extension methods, 9 in Landsat photo interpretation, and 2 in resource management;

- -- East Africa, a fuelwood project in Burundi (complementing a peat development effort, which should assist in reducing firewood needs) and a large renewable energy project in Kenya. The latter includes both demonstration reforestation and an agroforestry components.

The Latin American and Caribbean Bureau has utilized an extensive program of environmental profiles for virtually all countries assisted by AID in the region, to identify a widely varying complex of forestry and related natural resource management needs. Activities addressing tropical deforestation which are being implemented by the Bureau range from those appropriate to seriously deforested Haiti to those suited to the forest conditions in Honduras. In Honduras, densely settled areas suffer from severe deforestation and soil conservation problems; at the same time, the potential for commercial forest exploitation in remote areas is still very great. In addition to bilateral project activities in Panama, Costa Rica, Honduras, Jamaica, and Haiti, the Latin America/Caribbean Bureau has sponsored:

- -- studies, research, and pilot fuelwood projects in Central America, Haiti, and the Dominican Republic;
- -- reforestation activities in Peru and Bolivia;

- -- a forest resources sector study in Ecuador;

-- an inventory and assessment of training facilities and programs for Latin American forest resource management specialists as a first step to programming increased financial and technical resources for training in this area.

The Bureau for the Near East encounters semi-arid and arid vegetation environments of the Mediterranean. These are not "tropical forests" in any strict sense of the term but are environments subjected to over exploitation from the overgrazing of livestock and, in some localities, from the collection of brush for fuel. The result of such deterioration is large scale wind and water erosion of the soil/sediment mantle, a reduction in livestock carrying capacity, and the expansion of desertified areas. Destruction of vegetation and poor agricultural land use also results in greatly increased sediment loads being transported by the drainage networks and engineered structures, causing rapid siltation of reservoirs and increased irrigation canal maintenance requirements. Current problems are compounded by the expansion of private and government activities which increase livestock production through the provision of additional forage and water.

Programs sponsored by the Near East Bureau include:

-- education and training projects in agricultural sciences (agricultural engineering, forest management, range management, soil science, watershed management) in Egypt, Morocco, Portugal, Syria, and Yemen;

-- education and training activities in environment and natural resources (environmental planning, ecology, remote sensing, resources management, water resources, wildlife management) in Egypt, Jordan, Portugal, Syria, Tunisia, Turkey, and Yemen;

-- public education and awareness activities conducted by local private voluntary organizations in Lebanon and Turkey;

-- institution building programs for agriculture in Morocco, Portugal, and Yemen;

-- national soil survey and land use classification projects in Syria and Yemen;

-- water resources projects focusing on management and institution building in Egypt, Jordan, and Yemen;

-- dryland agriculture and range management projects in Morocco and Tunisia;

-- on-farm water and rural land use management (proposed) in Yemen;

-- forest resources management (proposed) in Morocco.

Increased Emphasis on Tropical Forests

Because the repercussions of tropical deforestation extend far beyond the traditional concept of forest management into concerns over energy availability, food production, and water supplies, the US Government in general, and AID, USDA/Forest Service and Peace Corps in particular, have given priority attention to increasing US assistance in this area. In December 1979, AID and Peace Corps produced guidance to their field missions on forestry-related issues. Missions were requested to examine the extent to which deforestation constitutes an impediment to development and to discuss program opportunities with host governments. Areas of activity include:

-- raising host government awareness of the problem through assistance in survey and analysis techniques, institutional development, and improved research capability;

-- support for forest protection and regeneration, tree production through programs for tree plantations, wood lots for fuel and agroforestry, and testing of improved fast-growing tree species;

-- support for the development of renewable and alternative energy sources and sustainable cropping systems through intergrated rural development activities incorporating intensified agriculture, off-farm employment, and alternative energy sources;

-- support for more efficient use of forests and local industries based on production of forest products for fuel, food, or other economic uses.

In September 1980, AID reached agreement with USDA under which the USDA/Forest Service will establish and manage a Forest Resources Management Support Network with the following objectives:

-- to provide AID with the greater professional capacity in forestry and related natural resources to meet AID assistance requirements;

-- to provide AID Missions in developing countries with immediate and direct resident field support and backstopping in forestry and related natural resources areas; and

-- to provide the Agency and the Regional Bureaus with workshops, conferences and studies through which ongoing and planned AID forestry assistance efforts in developing countries can be examined, and more widespread use of the most promising and most effective approaches can be promoted.

AID is encouraging Missions and host governments to incorporate forestry and fuelwood activities into their country programs by helping Missions to identify urgent problems in each country, eliciting the commitment of the country to address the problem, and promoting those activities in which AID can appropriately participate.

Peace Corps is undertaking three major actions in the Forestry Sector:

-- assessing the current environmental, social, and institutional factors which influence Peace Corps Forestry/Natural Resource programs;

-- improving Peace Corps forestry programs and training; and

-- developing new and expanded forestry projects, emphasizing long-term collaborative efforts between Peace Corps and AID.

These actions will enable the Peace Corps to more effectively develop projects in: village woodlots, reforestation, land rehabilitation, agroforestry, arid zone vegetation resource management, and forest resource management. Regional programming workshops for the Peace Corps, AID and host country ministry staff will facilitate

collaborative, long-range efforts in these various projects. Pre-service and in-service forestry training sessions for Peace Corps Volunteers that include participation by ministry staff and village counterparts will improve skills and promote local participation and integrated development.

Presently, there are over 150 Peace Corps Volunteers working in forestry related projects in over 25 countries. For the first half of 1981, over 100 forestry volunteers have been requested by twelve host countries.

Other AID Environmental Protection Efforts

On October 23, 1980, AID revised its environmental procedures in order to coordinate them more closely with the Agency's decision-making process, to cut down on unnecessary studies and paper work, and to eliminate delays in project approval. Environmental concerns are now incorporated at the earliest stages of project identification and design.

The US strategy for building institutional resource and environmental management capability within countries has several facets. One is the "environmental profiling" process which involves collection of data on each country's resource base and the constraints those resources pose for development. Each AID-assisted country has been considered in terms of the present level of environmental sensitivity within the government, the status of AID's bilateral assistance program, and the likelihood of involving government officials in an environmental discussion. After this examination, a decision is made on the method to be used in further country examination. Approaches include: in-country workshops (Mauritania); a US study team (Bolivia, Guatemala); or an in-country examination under the leadership of local non-governmental organizations (Ecuador, Turkey); local private voluntary organizations (Lebanon); or by the host government (Dominican Republic). To date, initial reports have been prepared for 28 countries; reports for an additional 20 countries are in various stages of preparation. More complete in-country examinations are planned for approximately 30 countries. This environmental profiling process is valuable not only to AID, but to host country officials and other assistance agencies and provides a basis for the design of projects for institutional strengthening and environmental and natural resource management.

Environmental Protection Efforts of Other Bilateral Programs

The Overseas Private Investment Corporation (OPIC) has taken account of the environmental impact of its activities since directed to do so by the Congress in 1974. OPIC's environmental assessment program relies on representations from prospective investors, in-house analysis of every project, on-site monitoring of selected projects and discussions with host country environmental officials.

There will be further opportunities to make US environmental technology available to developing countries on a reimbursable basis, under the Trade and Development Program (TDP) using Section 607(a) of the Foreign Assistance Act. EPA has performed an assessment of environmental problems for the government of Nigeria. TDP and the Corps of Engineers are presently negotiating a reimbursable contract with the Joint Commission for the Red Sea under which the Corps will advise on the ecological protection of the Red Sea and environs when mining for minerals begins.

As the availability of Section 661 funds for feasibility studies grows, it will become increasingly important to ensure that environmental considerations are included in project preparation activities financed by TDP. Through the TDP and OPIC, the expertise of the US private sector can become increasingly engaged with developing countries in tackling their environmental problems.

Multilateral Initiatives

On the multilateral level, the United States is working to:

- -- encourage other donors to improve the protection of the world's prime croplands through projects directed toward the protection of watersheds and improved soil and water conservation practices;
- -- strengthen international capabilities for wildlife management, and widen the worldwide network of individuals and institutions devoted to classifying and preserving genetic species and germ plasma;
- -- achieve an internationally coordinated program on tropical forestry management through the UNEP and FAO;

-- maintain international support for the Global Plan of Action on Desertification resulting from the UN Conference on Desertification and the Sahel Development Program; and

-- improve procedures for evaluating and furnishing requested pesticides and other chemicals to developing countries.

In addition, the US Department of State, IDCA, and AID are encouraging greater efforts in the United Nations system to assure that all of its development efforts are carried out in an environmentally sound manner. Considerable progress was achieved when multilateral development and assistance agencies met at the United Nations Headquarters in New York on February 1, 1980 to sign the "Declaration of Environmental Policies and Procedures Relating to Economic Development." 1/

Continuing efforts will be undertaken by the United States to ensure that these policies are implemented. Additional efforts will be undertaken with other member states of the United Nations, particularly through the specialized agencies.

1/ Adopted at New York on February 1, 1980 by: The African Development Bank, The Arab Bank for Economic Development in Africa, The Asian Development Bank, The Caribbean Development Bank, The Inter-American Development Bank, The World Bank, The Commission of the European Communities, the Organization of American States, The United Nations Development Program, and The United Nations Environment Program.

III.C. EVALUATION

Evaluation is now a widely accepted component of public programs. Evaluation is necessary in order to determine if intended recipients are actually benefiting from programs, to assist in finding ways to be more efficient, to determine when to revise or curtail programs and to guide future programs. Strengthening evaluation of publicly-supported programs has become an important concern both of the Executive and Legislative branches of government. The evaluation of international programs assisted by the United States has received particular attention over the past year. This report covers evaluation activities by AID, the Peace Corps, the United Nations (UN), the Multilateral Development Banks (MDBs), and the Development Assistance Committee (DAC) of OECD.

Agency for International Development (AID)

Improvements to Existing Evaluation Activities

Although AID has been evaluating its programs for many years, in 1980 there was more consistent high-level involvement and more reports for policy and public use than ever before in the history of the Agency. A new series of impact evaluations was launched, and new publication series were started to make the results of evaluations more widely available. An assessment of AID's entire evaluation activities was carried out.

An improved system to better determine what evaluation topics should be carried out began. This has been done not only to use resources more efficiently, but to make evaluation work more responsive to policy and mnagement needs. AID presently assesses its need for evaluation annually; all levels of AID management are involved in this process. Bureaus with program responsibility compile an evaluation plan for projects and programs under their authority. Regional bureaus consult field missions and, in turn, field missions consult with host country officials concerning implementation of plans spelled out in project agreements. During 1980 AID bureaus took several steps to better ensure their evaluation plans were initially feasible and that they were implemented.

More efficiently designed projects have resulted in much greater attention to the quality of evaluations. Several hundred evaluations involving literally thousands of people have been carried out around the world. Most importantly, the process of evaluation in the field becomes itself a form of technical assistance as project evaluation has become a normal part of project activity. The results are seen in such instances as:

-- In Egypt the designs of the Peace Scholarships and the Applied Science and Technological Research projects were based on the findings of evaluations of earlier projects. A proposal for a follow-up project to assist development planning was sent back to the drawing boards because it did not address issues identified in an earlier evaluation.

-- An evaluation of the Kenya National Range and Ranch project identified fundamental problems which prevented the project from achieving its objectives; the project was terminated.

-- A joint Senegal-US assessment of on-going projects led to a number of corrective actions aimed at improving existing and planned new projects.

-- In Haiti, evaluation of work by Catholic Relief Services highlighted important achievements in a pilot project which organized and helped train peasant groups to mobilize savings and launch development schemes. The evaluation of this innovative project provided information which supported further initiatives in this promising area.

New Impact Evaluation Initiative

Late in 1979, a new initiative was launched by AID to evaluate the impact of selected development activities in order to learn policy lessons (i.e. "what works and what doesn't work") in areas of key importance. Previously, most AID evaluation work had been devoted to on-going activities. These evaluations are designed to assess the impact of completed projects and to measure whether project induced changes are beneficial and enduring.

Initiated by AID's Administrator, the effort was coordinated by the Agency's Office of Evaluation and used staff from throughout the agency. The impact studies have the following characteristics:

-- field observation of project results emphasizing socio-economic impacts;

-- participation of AID professionals in interdisciplinary teams;

-- objectivity and independence through choosing team members who have not been previously associated with the projects to be evaluated;

-- brief, clearly written reports signed by the team members; and,

-- publication of the findings whether they show success or failure.

Topics for these studies were chosen on the basis of policy priorities: potable water projects (as an aid to helping define the US contributions for the UN Decade for Water and Sanitation which starts in 1981); examination of rural roads projects, rural electrification projects, and irrigation projects (all three being important parts of the development strategy to improve the lives of the rural poor); and evaluation of basic village health projects (a newer strategy, the results of which needed to be assessed to see if the strategy worked). Major work also took place on agricultural research and on livestock projects carried out among pastoral peoples. Late in the fiscal year, work commenced on the evaluation of education projects and the evaluation of various private and voluntary organization projects and programs.

In preparing for these studies, a number of discussion papers were commissioned to identify issues which should be evaluated. Projects were selected for evaluation using criteria including regional distribution, representativeness, and potential impact. Sector studies generally consisted of at least two projects from each of AID's four regional bureaus and represent a wide-range of projects under implementation. Interdisciplinary teams perform field work,

usually of about three weeks' duration, after which a draft report is prepared and carefully reviewed in the field. In 1980, these reports were also reviewed by the bureaus involved, the Office of Evaluation, and the Administrator. During the first year, 27 projects from 20 countries were evaluated for their long-term impacts.

Publication

Project reports are published individually; as sectoral work is completed, summary reports are prepared and published. The extensive publication of these evaluations is unique in the donor community. Publications are circulated widely within the Agency, to private and voluntary organizations, to other donors, to colleagues in the Legislative Branch, and to a wide range of academicians and institutions.

The results of evaluation studies are used for management and policy decisions. Many programs have been greatly improved. Follow-up investments have been encouraged within AID and by other donors through publication of successful projects. Developing countries and AID have agreed to postpone or drastically redesign proposals which received a poor evaluation. Specifically, country and project strategies in population, rural electrification, nutrition, and other areas have been modified based on the results of evaluations. In addition, there have been a number of discussions between field missions and developing countries based on evaluation reports done in other parts of the world. Some examples include:

-- Questions raised in the Philippines Rural Electrification evaluation (where strong social benefits were demonstrated, but the type of economic use of the system was questioned) resulted in an Agency decision not to expand a rural electrification scheme in another country until a good deal more work was done to link electrification to rural production.

-- AID's impact evaluation of the Colombia rural roads project reported considerably strong and sustainable economic benefits to the poor. The poor also benefited through better access to social services. Based on the evaluation, the Government of Colombia and the Inter-American Development Bank (IDB) have planned an expansion of the project to five times the investment made by AID in the original project.

-- An impact evaluation of a water project in Tunisia, managed by CARE, was used to redesign AID's approach to water supply in Tunisia and caused a review of other proposed water projects in the Near East to see that they incorporated the basic lessons learned in the evaluation.

AID plans to continue and expand its publication of evaluations. Based on the experience of the past year, AID has decided that the impact evaluations will be a continuing part of its approach to evaluation.

Impact evaluations published thus far are:

No. 1 : Colombia: Small Farmer Market Access (December 1979)

No. 2 : Kitale Maize: The Limits of Success (May 1980)

No. 3 : The Potable Water Project in Rural Thailand (May 1980)

No. 4 : Philippine Small Scale Irrigation (May 1980)

No. 5 : Kenya Rural Water Supply: Program, Progress, Prospects (June 1980)

No. 6 : Impact of Rural Roads in Liberia (June 1980)

No. 7 : Effectiveness and Impact of the CARE/Sierra Leone Rural Penetration Roads Projects (June 1980)

No. 8 : Morocco: Food Aid and Nutrition Education (August 1980)

No. 9 : Senegal: The Sine Saloum Rural Health Care Project (October 1980)

No. 10: Tunisia: Care Water Projects (October 1980)

No. 11: Jamaica: Feeder Roads (December 1980)

Assessment of AID's Evaluation Work

A task force appointed by AID's Administrator has carefully assessed the effectiveness of AID's entire evaluation program. The task force noted that AID conducted more evaluations than almost any other part of the Federal government and recommended that there be fewer but higher quality evaluations. The task force also recommended that stronger efforts be made to program evaluations so that their cumulative impact will be greater. Similarly, the task force recognized the complex nature of evaluation and recommended an increase in the evaluation training given to AID employees. These recommendations were acted upon favorably.

Four Congressional Committee reports in 1980 supported the major improvements in the field of evaluation by AID. In addition, AID has many requests for published evaluation reports and reports that are of considerable use to universities and the public.

Peace Corps

During Fiscal Year 1980, Peace Corps evaluation activities focused on four major areas of activity.

First, a set of evaluations was undertaken, in specified functional areas, that relate to the recruitment and selection of prospective volunteers. This set included:

-- an evaluation of Minority Recruitment Strategy Contracts last year, principally to colleges with historically black or other minority enrollment. The purpose of these contracts is to assure knowledge of Peace Corps on-campus and, as a result, to boost minority participation among Peace Corps Volunteers.

-- an evaluation of an intern program conducted last summer for juniors enrolled at historically minority colleges to provide them with an experience which would raise their awareness of development issues and of the role of Peace Corps.

-- an appraisal of placement/selection models, primarily the CAST, to look at indicators of relative cost and effectiveness.

The second area of evaluation was on training. This included the evaluation of an agricultural technical skill training program used to prepare volunteers for service in the Latin American and Caribbean region, as well as explanation of a specific in-country pre-service training model.

The third area of activity involved evaluation of sector-specific efforts. Most notably, this included an assessment of the outcome of a multi-year TEFL (Teaching English as a Foreign Language) program in Korea and the development of a specific evaluation model suitable for assessing the results of nutrition-education projecos.

Finally, on-going efforts were completed involving the surveying of current as well as former volunteers. For the first time, reports containing specific key indicators of performance were prepared from the Volunteer Activity Survey, for most of Peace Corps' on-going projects.

Planned evaluation activities for Peace Corps in Fiscal Year 1981 include continuing implementation of the annual Volunteer and Staff surveys and work on refining the nutrition-education sector evaluation model. New initiatives include an appraisal of volunteer effectiveness, using volunteers in a fisheries project as a pilot for developing the model, and the development and implementation of a model for undertaking joint Peace Corps and host country evaluations of overall program impact. In addition, field staff will be asked to undertake more regular project monitoring and evaluation efforts.

The United Nations

The United States has supported efforts by the UN system to improve their evaluation activities. This was done in an effort to improve the management of scarce resources. There has been definite progress in this area during 1980.

For the first time, the UN Headquarters staff has a Chief of Evaluation, who is located in the Policy and Program Bureau. Working with the UN's Joint Inspection Unit Staff in Geneva, the UN Headquarters has launched initiatives to improve evaluation throughout the UN system. Currently, there is discussion aimed at coordinating agency efforts and developing common approaches.

The Multilateral Development Banks

With the exception of the African Development Bank (AfDB), all the multilateral development banks maintain internal systems for project and performance evaluation. (The AFDB is in the process of developing such a system; at present, there are few completed projects to evaluate.) These evaluation systems measure actual project performance against original design, providing a check on MDB lending and implementation procedures as well as on their internal operations. The evaluation processes are carried out by independent offices within the MDBs or by external evaluators; the reports typically go directly to the Bank Boards. These reports are objective and comment on both the performance of the MDBs and the borrowers. The evaluation systems employed by the MDBs have been based, in part, on recommendations by the US Government Accounting Office (GAO); the GAO reviews these systems and their results approximately every three years.

The World Bank is continuing to emphasize evaluation of completed projects. It has also produced an annual compendium of evaluation results. These initiatives have become important in Bank policy discussions. The Bank has also taken substantial leadership in organizing regional workshops for national evaluation authorities to strengthen their roles.

The Development Assistance Committee of the Organization for Economic Cooperation (OECD)

The point of coordination for donors from the industrialized countries, is of the Development Assistance Committee (DAC) of the OECD; the United States supports the greater attention DAC has given to evaluation in 1980. In April 1980, the DAC sponsored a meeting on aid effectiveness. The United States played a major role at that meeting, which focused on efforts of donors to evaluate development assistance, efforts to inform the general public about international assistance, and the relationship of these two topics.

During the discussion, it was clear that a number of DAC members follow evaluation practices similar to those of AID. Canada, Germany, and the Netherlands reported on their use of the logical framework system (the method of design and evaluation pioneered by AID), the importance of benchmark data, and the need for scheduled project evaluations. There are, however, a number of major DAC countries without formal evaluation systems.

The United States presented the main paper and discussed the topic of developing country evaluation systems. The United States emphasized the deleterious impact that separate donor planning and evaluation requirements can have on the public administration capabilities of developing countries and called on DAC members to adopt policies that place maximum reliance on developing country evaluation systems. At the same time, there was considerable discussion about the need to demonstrate the cumulative effectiveness of donor programs. The major outcomes of this meeting were:

-- The DAC Chairman called for the formulation of an on-going informal group on evaluation within the DAC. After consultation among the government members of DAC, the Director of AID's Office of Evaluation has been asked to organize and chair the informal group. This appointment recognizes the high priority the United States gives to evaluation.

-- At the request of DAC members, there is a major and comprehensive chapter on aid effectiveness in the 1980 DAC Chairman's Report. The chapter emphasizes the difficulty of assessing effectiveness, but points to several ways in which this can be done. It concludes by noting that effective analysis will reduce political expectations to a more realistic level and will highlight the difficulties of important development activities.

-- The concern on the part of the United States and developed countries that evaluation within developing countries be highlighted has resulted in the compilation under US leadership of a directory of evaluation authorities throughout the world. This is the start of a networking system between national authorities in both developed and developing countries. The concern on the part of the United States has spurred multilateral organizations to enhance their own activities in regard to the evaluation systems of developing countries.

IV. OFFICIAL US SUPPORT FOR DEVELOPMENT

IV.A. THE MULTILATERAL DEVELOPMENT BANKS

The major share of US development assistance is provided through the multilateral development banks (MDBs): the World Bank Group (IBRD, IDA, and IFC); the Inter-American Development Bank (IDB); the Asian Development Bank (ADB); and the African Development Fund (AfDF). The activities of the MDBs serve important US policy objectives in an efficient and cost-effective manner. Through their access to private capital markets, the banks' non-concessional windows are able to mobilize large amounts of funds for economic development at minimum cost to member governments. In FY 1980 alone, MDBs were able to raise roughly $6 billion through borrowings backed by callable capital guarantees provided by their members. US contributions to the MDBs also leverage the contributions of other donors. Recent US shares of capital increases and replenishments have been on the order of 22 percent; thus, on the average the MDBs have been able to secure about three and one-half times the US contributions from other donors.

The financial resources mobilized by the MDBs are complemented by their own staff and internal management procedures. MDB loans are subject to careful internal appraisal to ensure efficient use of the funds loaned. MDB staff are highly trained, competent, and required by MDB charters to operate in an objective manner. The multilateral character of the MDBs enables them to prescribe conditions for lending and to advise recipient countries on broad economic policies in a manner not possible under bilateral aid programs. Through their chairing of, and participation in, aid consortia and consultative groups, the MDBs also play an important role in coordinating activities of donors to minimize duplication and ensure compatability.

The United States benefits directly from its participation in MDBs through purchases of US goods and services for MDB-financed projects. The purchase of US goods and services financed by MDBs gives rise to increased US economic activity. The Treasury Department estimates that these purchases of US goods and services yield GNP growth of about 3 dollars for each dollar the US pays into these institutions.

The United States uses its participation in the MDBs to encourage the adoption of policies designed to promote equitable economic development. The United States has placed particular emphasis on increasing the productive potential of the poorest groups in the developing countries; MDB activities are increasingly emhpasizing the importance of meeting basic human needs. This has been reflected in changes in sectoral lending priorities and in efforts to ensure that lower income groups receive proportionately more in project benefits. Basic human needs activities (e.g., education and health) accounted for 11.8 percent of total IBRD/IDA lending in World Bank FY 1980, up from 5.2 percent since FY 1970. Projects which primarily benefit the poorest groups, such as rural development and small-scale industry, accounted for another 18.7 percent of IBRD/IDA lending in World Bank FY 1980.

The United States has also actively promoted the adoption and use of capital saving technologies by the MDBs. Appropriate use of labor intensive technology can increase the demand for labor and thus offer one method of reaching the poor.

In addition, the United States has encouraged the MDBs to sharply expand their lending for energy development to meet the increasing energy needs of the developing countries and to mitigate their dependence upon increasingly scarce and costly imported oil. The World Bank and IDB have established programs for energy development and are currently considering plans for further expanding these programs. The ADB is conducting an extensive study of the Asian energy sector in order to define its role in the energy area.

The United States has also acted in the MDBs in support of human rights. It has encouraged MDB support of countries with good human rights records and those whose records were improving and have opposed loans, except for basic human needs projects, to countries with a record of continuing human rights violations. The United States has consulted with other governments, MDB management, and their Executive Boards in support of this objective.

Legislative Activities in US FY 1980

In FY 1980, authorizing legislation was introduced for US participation in the Sixth Replenishment of the International Development Association (IDA VI) in the total amount of $3.24 billion. Authorizing legislation for US entry into the African Development Bank (AfDB) and for subscriptions of its share ($360 million) of the AfDB's capital was also submitted. Congressional action on both requests was still pending at the end of FY 1980.

During the course of FY 1980, Congress took action on authorizing legislation for US subscriptions to the capital increase of the Inter-American Development Bank (IDB) and US participation in the replenishment of the IDB Fund for Special Operations (FSO), the Asian Development Fund (ADF), and the African Development Fund (AfDF). This legislation was submitted to Congress in FY 1979. Congress authorized $2,474 million for the IDB, $630 million for the FSO, $378 million for the ADF and $125 million for the AfDF. Congress did not provide the full amounts requested for the IDB capital increase and the FSO and ADF replenishments -- $2,749 million, $700 million, and $445 million respectively. President Carter committed the Administration to seek Congressional authorization of the shortfall amounts from the new Congress.

In FY 1980, the Administration also requested appropriations for FY 1981 for US subscription and contributions to the MDBs totalling $1,862.3 million. Of this total, $364.5 million, or 19.5 percent, represented sums previously requested and authorized by Congress but not appropriated in prior fiscal years. The remainder, $1,497.8 million, was requested to meet current year funding requirements for the MDBs. In addition, the Administration has requested program limitations of $1,825.7 million for callable capital subscriptions to the MDBs which do not entail an outlay from the US budget. Of the callable capital limitation, $952.7 million, or 52.2 percent, represented sums requested in previous years but which Congress had not provided. Congress had not acted on these requests by the end of FY 1980. The breakdown of the appropriations request for FY 1981 is as follows:

TABLE IV.A.1

FY 1981 MDB APPROPRIATIONS REQUESTS
(million dollars)

	NEW REQUEST	UNFUNDED REQUESTS FROM PREVIOUS YEARS	TOTAL
IBRD			
Paid-in	--	86.28	86.28
Callable Capital	--	776.50	776.50
IDA	1,080.00	20.00	1,100.00
IFC	--	14.45	14.45
IDB			
Paid-in	51.55	7.38	58.93
Callable Capital	635.75	91.90	726.95
FSO	175.00	150.28	325.28
ADB			
Paid-in	20.36	9.43	29.79
Callable Capital	183.21	85.04	268.25
ADF	111.25	60.00	171.25
AfDB			
Paid-in	17.99	--	17.99
Callable Capital	53.96	--	53.96
AfDF	41.67	16.67	58.33
Totals			
Budget Authority	1,497.82	364.49	1,862.29
Program Limitation on Callable Capital	872.92	952.74	1,825.67

Major Developments in 1980

World Bank Group

The World Bank Group consists of: the International Bank for Reconstruction and Development (IBRD), which makes loans on near-market terms, primarily to its middle-income developing country members; the International Development Association (IDA), which makes loans on concessional terms to its poorest development country members; and the International Finance Corporation (IFC), which makes loans and equity investments primarily to the private sector in its developing country members.

The World Bank Group committed a total of $12,568.6 million to its borrowing member countries in FY 1980, making it the largest single source of official assistance for development in the world. This amount represented an increase of 24 percent over the amount committed by the Group in the previous fiscal year. In FY 1980, the World Bank Group provided resources to 77 countries distributed geographically as follows: Sub-Saharan Africa, 30 countries ($1,608.9 million); Asia and Pacific, 15 countries ($4,969.4 million); Latin America and the Caribbean, 18 countries ($3,540.7 million); and Europe, Middle East and North Africa, 14 countries ($2,449.6 million).

During FY 1980, the IBRD and IDA continued to emphasize agriculture and rural development. IBRD and IDA loan commitments in the agriculture and rural development sector in FY 1980 amounted to $3,502.2 million, compared to $2,712.0 million in the previous fiscal year. The $1,509.8 million committed by IDA in FY 1980 for these purposes represented 40.5 percent of its total commitments, the highest percentage of any sector. World Bank Group lending in the agriculture sector has been increasingly directed to small farmers to meet domestic market consumption needs. The World Bank Group has also placed increased emphasis on lending to meet other basic human needs, such as water supply and sewerage, education, and family planning projects. In addition, lending for basic infrastructure projects has continued to ensure balanced economic growth.

Last year saw many new developments and initiatives in the World Bank Group. On May 22, 1980, the World Bank Executive Board approved a structural adjustment lending program designed to encourage individual developing countries to undertake necessary economic policy measures to reduce,

over the medium-term, their current account deficits to sustainable levels. Under this program, the World Bank will provide, over a five to seven year period, non-project loans to individual developing countries linked to micro and macroeconomic policies designed to adjust the basic structure of their economies.

The United States supports the World Bank's structural adjustment lending program. The Bank's program addresses the need of many developing countries to undertake basic underlying economic reforms as a necessary condition for long-term sustained economic development. The structural adjustment lending program gives the World Bank the capability to respond to this need in a supportive and flexible way.

The World Bank was asked by the participants at the 1980 Venice Summit to examine the adequacy of existing resources and mechanisms for energy development in developing countries and to consider means of improving and increasing the World Bank's programs in this area, with specific reference to the possible establishment of an affiliate or facility.

In response to this request, the World Bank examined its planned lending for energy development in oil-importing developing countries in FY 1981-85 in light of available energy projects and developing countries' needs. To meet the need for an estimated total energy investment of $450-500 billion in these countries over the next decade, the Bank proposed to increase its own energy FY 1981-85 lending program from $13 billion to $25 billion, provided the additional finances could be found. The projected $25 billion program would cover the development of oil, gas, coal, electric power, and renewable energy resources and would result in projects valued at about $92 billion, with the remainder of the resources provided by private capital and the developing countries themselves.

The United States has strongly supported the World Bank's past efforts in the energy sector and attaches great importance to the Bank's plans to lend $13 billion for energy development in the oil importing developing countries through 1985. The United States encourages the Bank's effort to find additional ways to further expand energy development in its borrowing countries.

On May 15, 1980, the People's Republic of China succeeded Taiwan as the representative of China to the World Bank. The United States welcomed the People's Republic to the World Bank as part of its effort to strengthen the links between the People's Republic and the world economy.

In his address at the Annual Meeting in September 1980, outgoing World Bank President Robert McNamara outlined challenges confronting the World Bank in the 1980s, including the need to expand lending due to higher than anticipated inflation rates, increased lending needs resulting from membership of the People's Republic of China, the structural adjustment lending program, and energy development in the oil-importing developing countries. Treasury Secretary Miller's statement at the Annual Meeting stressed US support for World Bank actions in energy development, structural adjustment lending, population activities, and meeting basic human needs. He called on the Bank to increase the share of lending provided to the poorer developing countries and for close collaboration between the Bank and the International Monetary Fund. Secretary Miller expressed full support for the IBRD's General Capital Increase and the Sixth Replenishment of IDA, and stated his willingness to examine the additional ways to support World Bank Group operations beyond these actions.

International Bank for Reconstruction and Development (IBRD)

In US FY 1980, the IBRD committed a total of $8,164.2 million to 46 countries, distributed geographically as follows: Sub-Saharan Africa, 10 countries ($516.7 million); Asia and Pacific, 8 countries ($2,533.5 million); Latin America, 17 countries ($3,079.0 million) and Europe, Middle East and North Africa, 11 countries ($2,035.0 million). IBRD lending in FY 1980 was concentrated in: agriculture and rural development ($1,992.4 million); energy and power ($1,999.0 million); transportation ($1,375.0 million); industry ($430.5 million); water and sewerage ($425.4 million); and education ($405.1 million). As of June 30, 1980, the IBRD had made commitments of $59.3 billion to 1,875 projects of which loans totalling $26.3 billion were still outstanding and disbursed.

IBRD lending is financed by the hard currency portion of paid-in capital subscriptions of IBRD members, borrowings from private capital markets and member states (backed by the callable capital of IBRD members), sales of loan

participations, principal repayments on previous loans, and retained earnings. New borrowings and loan repayments have accounted for the vast bulk of IBRD cash flows in recent years. The US share of IBRD subscribed capital amounted to 23.39 percent as of June 30, 1980.

On January 4, 1980, the IBRD's Board of Governors adopted a resolution to increase the authorized capital of the IBRD by an amount equivalent to $40.0 billion. Simultaneously, a second resolution was adopted which further increased the IBRD's authorized capital by $4.0 billion for voting purposes only. The United States has not yet voted on this General Capital Increase (GCI), because it lacked Congressional authorization to do so. These capital increases represent an approximate doubling of the IBRD's current authorized capital stock to around $85.0 billion. They are designed to permit IBRD lending to grow in real terms through the mid-1980s. Only 7.5 percent of the $40.0 billion in new authorized capital stock will be paid-in with the remainder represented by callable capital guarantees; all of the $4.0 billion will be callable capital. The US share of the GCI amounts to 21.95 percent.

The United States strongly supports this proposed increase and views its participation in the GCI as a key component of its foreign assistance policy. The $40.0 billion increase in authorized capital is required to sustain the major world economic role the IBRD plays as a provider of resources to promote equitable economic development, as a catalyst to promote private capital flows, and as a source of sound advice on economic policies to developing member countries. The GCI is a particularly cost-effective means of achieving these objectives because only a small fraction, 7.5 percent, of the $40.0 billion represents an actual budgetary outlay for member countries, and the cost of the increase is shared equitably by all IBRD member countries. Congressional approval for US participation in the GCI will be sought in the FY 1982 budget.

International Development Association (IDA)

The International Development Association plays a central role in promoting economic growth with equity by providing credits on concessional terms to the poorest developing countries. IDA credits have maturities of 50 years with 10-year grace periods and carry no interest. They have an annual service charge of 0.75 percent on the disbursed portion of each credit.

The vast bulk of IDA loans go to the poorest developing countries. While all countries with per capita GNP of less than $680 (measured in 1979 US dollars) are eligible for IDA assistance, 81 percent of IDA loans in U.S FY 1980 went to countries with per capita GNP levels of less than $345. The 61 currently eligible IDA borrowers, most of which are located in South Asia and Sub-Saharan Africa, together account for 59 percent of the world's population; however, they have only 9 percent of the world's gross national product.

In FY 1980, IDA extended credits totalling $3,723.8 million to 41 countries, bringing cumulative IDA lending from 1960 to June 30, 1980 to $20.6 billion. IDA lending in FY 1980 was distributed geographically as follows: Asia and Pacific, 9 countries ($2,333.1 million); Sub-Saharan Africa, 25 countries ($1,034.0 million); Latin America and the Caribbean, 4 countries ($80.0 million); and Europe, Middle East and North Africa, 3 countries ($276.7 million). IDA lending in FY 1980 was concentrated in: agriculture and rural development ($1,509.8 million); energy and power ($936.3 million); transportation ($226.5 million); and water and sewerage ($190.7 million).

IDA lending is primarily financed by contributions from donor countries. In addition, a small amount of the net earnings generated by the hard loan activities of the IBRD are transferred annually to IDA. In recent years, this figure has been $100 billion.

In 1980, IDA exhausted its commitment authority under the Fifth Replenishment ($7,732 million) designed to cover the three year period ending June 1980. In March 1980 after a number of meetings among representatives of prospective donor countries, the Board of Governors of the Association approved a resolution calling for a $12 billion replenishment of IDA for the three year period beginning July 1980 (IDA VI). However, at the end of June 1980, the replenishment had not taken effect, since formal notifications of intentions to make payment or seek appropriation of commitments accounting for at least 80 percent of the total replenishment amount had not been received from donors. In August 1980, the Association began approving IDA VI loans subject to the availability of resources. As an interim measure pending implementation of IDA VI, a number of countries agreed in October 1980 to make advance individual contributions.

As of the end of FY 1980, legislation for US participation in IDA VI was currently pending before the Congress. The US share of IDA VI is 27 percent (versus 31.04 percent in IDA V); therefore, the replenishment cannot come into effect without US participation. The United States will be able to participate in IDA VI only after obtaining authorizing legislation for its IDA VI share and appropriation of its first payment.

International Finance Corporation (IFC)

In FY 1980, the IFC made loan investments of $635.1 million and equity investments of $45.5 million in enterprises in 30 countries. IFC investments were concentrated in light and heavy industry, financial institutions, agroindustry, fuels, and minerals. IFC investments represented approximately 30 percent of the costs of these projects. The remaining amount, roughly $1,588 million, was financed by other sources including local private investors, retained earnings, commercial banks, and government agencies in the country where the project was located, and foreign public and private sources. As of June 30, 1980, the cumulative gross total of IFC investments was $3,209 million in 535 projects.

The United States strongly supports the activities of the IFC, viewing its role in promoting private sector development as an essential component of the economic development process in developing countries. The United States has encouraged an expanded role for the IFC and, as part of this effort, supported the increase in the IFC's authorized capital from $110 to $650 million in November 1977. The US was contributing one-third of the IFC's subscribed capital as of June 30, 1980.

Inter-American Development Bank (IDB)

The IDB is a major source of development assistance to Latin American and Caribbean countries. The IDB provides funds for lending at both near-market and concessional terms.

During FY 1980, the IDB committed a total of $2,279 million in loans, an increase of 7 percent over the level of commitments in the preceding fiscal year. Of this total, $1,279 million was on conventional terms from the Ordinary Capital (OC) and Inter-Regional Capital (IRC) resources of

the Bank; $799 million was lent on concessional terms by the Fund for Special Operations (FSO). The IDB also committed $90 million in resources from special accounts and funds (such as the Venezuelan Trust Fund) which it administers on behalf of donors.

As of September 30, 1980, cumulative lending by the IDB since February 1961, amounted to $16.7 billion, of which $6.9 billion remained outstanding. Since February, 1961, $6.2 billion had been loaned from the Ordinary Capital account, $2.5 billion from the Inter-Regional Capital account, $6.8 billion from the Fund for Special Operations, and $1.1 billion from other sources (primarily the US Social Progress Trust Fund and the Venezuelan Trust Fund).

IDB lending in FY 1980 covered 80 projects in 18 countries. This lending was concentrated in projects in power and energy (approximately 18 percent of all FY 1980 loans) and agriculture (approximately 25 percent); however the breakdown of loans into sector categories is somewhat misleading as many IDB projects are multipurpose in nature.

IDB lending is financed primarily through resources derived from borrowing in international private capital markets, the paid-in capital subscriptions of member countries, retained earnings, and member contributions to the Fund for Special Operations. As of September 30, 1980, the subscribed capital stock of the IDB amounted to $13.2 billion (of which $1.5 billion was paid-in and $11.7 billion was callable) and FSO resources totalling $7,633 million. The US share of IDB capital was $4,647 million or 35 percent of the total. Including contributions authorized, but still pending Congressional appropriation, the United States has accounted for $4,270 million, or 56 percent, of total contributions to the FSO.

In FY 1978, a fifth replenishment was agreed to by the United States and other IDB members to cover lending by the IDB for the period 1979-82. The Fifth Replenishment totalled $9.75 billion, consisting of $8.0 billion for an increase in the IDB's capital stock and $1.75 billion for the FSO. The replenishment did not enter into effect, however, until July, 1980, when the United States, following passage of authorizing and appropriations legislation by Congress, was

able to vote in favor of the resolutions to increase the IDB's capital stock and the resources of the Fund for Special Operations. At this time, as partial fulfillment of the first installment of the replenishment, the United States subscribed $44.2 million to paid-in capital stock and contributed $175.0 million to the Fund for Special Operations.

At the 1980 Annual Meeting, the acting US Governor of the IDB reaffirmed the US support for the IDB's efforts to promote balanced and equitable growth in the hemisphere. He noted the IDB's pioneering work in land reform, integrated rural development, public health, and urban development; commended the IDB for its increased lending in the energy sector; and encouraged the IDB to devote more attention to alleviating the problems of inadequate food supply and rapid population growth.

Asian Development Bank (ADB)

The ADB provides loans on conventional and concessional terms to promote economic development in the Asian and Pacific Region. In FY 1980, the ADB committed a total of $1,433 million in loans, an increase of 46 percent over the previous fiscal year. Of this amount, loans on conventional terms from ordinary capital resources totalled $979 million and loans on concessional terms were $454 million. In FY 1980 over 80 percent of the concessional loans from special funds went to countries with a per capita gross national product of less than $200 (measured in 1976 US dollars). Cumulative ADB lending as of September 30, 1980, amounted to $6,696 million, of which $4,719 million represented loans from ordinary capital resources and $1,977 million was from special funds. As of September 30, 1980, the ADB had $3,842 million in loans outstanding.

During FY 1980 the ADB committed loans for 53 projects in 18 countries. Indonesia ($231 million), Korea ($227 million), and the Philippines ($189 million) were the largest recipients of loans from ordinary capital resources. Bangladesh ($157 million), Pakistan ($114 million), and Nepal ($43 million) were the largest borrowers of ADB concessional resources. ADB lending in calendar year (CY) 1979 was concentrated in the agricultural and agroindustry (32.9 percent of all loans) and energy (26.0 percent) sectors. In recent years, ADB lending for education, urban development, and health has risen rapidly; in CY 1979 these sectors accounted for 16.4 percent of all loans.

ADB ordinary capital lending operations are financed primarily by paid-in capital subscriptions and resources borrowed from governments, central banks and private capital markets backed by callable capital guarantees by ADB members. Asian Development Fund (ADF) resources, which are used for concessional loans, are contributed by member countries. During FY 1980, the United States subscribed $155 million to the ordinary capital of the ADB, of which $15.5 million was paid-in and $139.5 was callable, raising its total share of ADB capital to $1,215 million. The United States also contributed $111.25 million to the resources of the Asian Development Fund, raising its total contribution to the ADB to $381 million.

At the 13th Annual Meeting of the ADB Board of Governors, the acting US Governor stressed US commitment to the ADB and to the Asian and Pacific Region and commended the ADB for its efforts in meeting the basic human needs and aspirations of the Bank's developing member countries.

African Development Fund (AfDF)

The African Development Fund (AfDF) was established in 1973 as the concessional lending affiliate of the African Development Bank (AfDB). The purpose of the AfDF is to contribute to the economic and social development of the poorest African nations. Except under extremely unusual circumstances, the Fund lends only to countries with a per capita gross national product of less than $550 (measured in 1976 US dollars).

During US FY 1980, AfDF lending totalled $247.7 million, an increase of 19 percent from the FY 1979 lending level. Cumulative AfDF lending to the end of FY 1980 totalled $949.7 million. AfDF funds were provided in FY 1980 to 23 African countries. Agricultural projects such as rural development, irrigation, rehabilitation of plantations, and infrastructure accounted for the largest share of AfDF lending.

The United States joined the AfDF in November, 1976, with an initial contribution of $15 million. The total US contribution to the AfDF is currently $75 million; total resources pledged to AfDF by all donors as of September 30, 1980, amounted to $1,376.4 million.

During the 1979 Annual Meeting, the Board of Governors of the African Development Bank recommended that the AfDB's charter be amended to permit non-regional countries to become members. The amendments are currently being ratified by AfDB members. In 1980, the Administration submitted legislation to authorize US membership in the AfDB and a subscription of $359.7 million -- 5.68 percent of the AfDB's total capital and 17.04 percent of the $2.1 billion non-regional subscription.

During the 1980 Annual Meeting of the African Development Fund, the US representative reaffirmed US support for the African Development Fund and Bank and expressed satisfaction with the AfDF's lending priorities, particularly its increasing emphasis on agricultural lending. He also commended the African Development Fund for the measures it had adopted to improve internal administration.

IV. B. OTHER INTERNATIONAL ORGANIZATIONS AND PROGRAMS

IV.B.1. United Nations Programs

The United Nations system, with its specialized agencies and programs, regional organizations, and international conferences, is an increasingly important mechanism supporting global development. Over the years, it has assumed a key role in setting the pace and direction for international cooperation in an interdependent world. It has the greatest number of technical experts working in the developing countries. Its periodic international conferences, e.g., the UN Conference on New and Renewable Sources of Energy and the World Conference on Agrarian Reform and Rural Development, have focused attention on such critical common problems as energy, food production, rural development, population and environment--all items of priority concern to the United States.

There are some 30 major agencies or programs concerned with development in the UN family. Although most were established by the General Assembly, some were already in existence prior to the founding of the United Nations, including the International Labor Organization founded in 1919, the International Civil Aviation Organization founded in 1944, and the International Telecommunications Union founded in 1934. Among those with major developmental responsibilities, the United Nations Development Program (UNDP) and the United Nations Children's Fund (UNICEF) are the principal UN agencies that assist developing countries and address development issues of worldwide concern. These two programs receive the major share of US voluntary contributions.

IDCA has lead policy and budget responsibility within the US Government for the organizations to which the United States makes voluntary contributions, including the UNDP, UNICEF, UN/FAO World Food Program, the UN Capital Development Fund, the OAS technical assistance programs, and the UN Interim Fund for Science and Technology for Development. The Department of State has lead responsibility for programs to which the United States makes an assessed contribution, but is closely advised by the concerned US domestic agency concerned

The United States' Role and Policies

US support of development assistance through multilateral institutions complements its bilateral programs and enhances American foreign policy objectives. Global development is inextricably linked to our security considerations. The amelioration of hunger, disease, illiteracy and resource depletion in developing countries, to which these UN agencies and programs devote increasing attention, reduces threats to international stability. US support for the UN's development programs is an important way in which we can shape and influence the changing patterns of global economic cooperation. By strengthening the United Nations' capacity to assist the developing countries and facilitate cooperation among them, other important donors are encouraged to participate; the burden of development assistance is thereby shared more equitably among nations, diminishing proportionately the US contribution share.

Both developing and developed countries benefit from UN efforts to focus worldwide attention on global issues of vital concern. The International Atomic Energy Agency (IAEA), for example, helps reduce worldwide dependence on fossil fuel and also acts as principal promoter of nuclear safeguards and nonproliferation. The Food and Agriculture Organization (FAO), the World Food Program (WFP), and the World Food Council (WFC) have increasingly drawn international attention to the worsening food situation. Programs such as the Food Security Scheme, the FAO Global Information and Early Warning System, and the International Fertilizer Scheme have been started to address this concern. The United Nations Environment Program (UNEP), in collaboration with FAO and other UN agencies, has for several years worked to ameliorate the consequences of land and forest degradation which have been highlighted in the Global 2000 Report. UNEP/FAO programs on tropical forest conservation and regeneration are meaningful responses to these issues of global concern. The FAO, jointly with the World Health Organization, has worked out standards for foodstuffs. These standards, along with FAO's data collection, analysis, and dissemination efforts, serve international agricultural trade, the United States having the largest stake in that trade. The weather data collection and related programs of the World Meteorological Organization (WMO) provide valuable assistance to the agricultural sector as well as to the aviation and merchant marine industries. These are only a few salient examples of how development assistance, scientific cooperation, education, and research by the UN system serve the direct interests of the United States and promote development in other countries.

UN donors are paying increasing attention to the urgent needs of the poorest countries. The United States maintains a strong continuing interest in progress toward this goal.

US Participation and Contributions

Programs which serve primarily development objectives receive the largest share of US contributions to the United Nations. These include the following programs. (This listing is not an exhaustive summary of all development related agencies in the UN system):

The United Nations Development Program (UNDP)

The UN Development Program (UNDP), headed by former US Congressman Bradford Morse, is the major international instrument for the delivery of multilateral technical assistance programs to the developing world. Since its creation in 1966, UNDP has provided more than $2.8 billion in technical assistance to over 153 countries and territories. An additional $1.25 billion is allocated for expenditure by the conclusion of the current funding cycle in 1981. To provide maximum use of funds and a centralized monitoring of program impact, UNDP implements its projects primarily through the network of UN specialized agencies and programs, e.g., WHO, WMO, and FAO.

The UNDP Country Programming process requires collaboration and commitment from the recipient countries. UNDP financial input to a given project constitutes about 40% of the total cost, the balance being provided by the goverment of the recipient country in counterpart contributions of cash, assignment of personnel, buildings, etc. On a worldwide basis, UNDP expenditures for 1979 were in the following sectors:

-- agriculture, forestry and fisheries	25.9%
-- transport and communications	12.7%
-- industry	11.7%
-- development policy and planning	10.8%
-- natural resources	10.8%
-- human settlements	7.3%
-- education	6.9%
-- employment and other social services	6.7%
-- health	4.2%
-- international trade	3.0%
	100%

Illustrative examples of current UNDP program activities include:

- -- Assistance to the Kingdom of Lesotho in designing and implementing an integrated agricultural development project for the seriously eroded southern portion of the country.

- -- Pre-investment feasibility studies to locate, design, finance, and construct a 60 megawatt hydro-power complex in Nepal--as a first step toward tapping national potential, rated among the highest in the world.

- -- Cooperation with the Government of Honduras in setting up a national campaign to reduce the 50 percent illiteracy rate.

- -- Strengthening and expanding capabilities of Costa Rica's National Training Institute to create 26,000 new jobs a year through equipping rural workers with basic mechanical and related skills.

Receipts for UNDP's main programs will amount to approximately $719 million in 1980; yet, while UNDP's program continues to expand, the US share of total contributions has declined from 37.3% ($75 million) in 1968 to 17.5% ($126.1 million) in 1980. The relative contributions of other donors, e.g., the Nordic countries and the Netherlands, have increased significantly during this time. (The Netherlands, for example, will be meeting 11% of UNDP costs in 1980.) This factor, plus the declining value of US contributions in real terms, has tended to diminish relative US influence over UNDP policies and management.

The United Nations Children's Fund (UNICEF)

UNICEF was created in 1946 to help destitute children in the wake of World War II. Begun as an emergency program, UNICEF had by the 1950s evolved into a long term voluntarily funded program to improve the conditions of children in developing countries. UNICEF strives to have children recognized as a vulnerable group and to promote conditions which will enable them to become productive members of society. Today UNICEF works closely with governments in 110 countries, often in collaboratin with UNDP, WHO, and other multilateral organizations.

Three types of cooperation characterize UNICEF's work: (1) assistance in the plan and design of basic services for children; (2) delivery of supplies and equipment for these services, and (3) provision of funds for the training of local personnel needed to work on behalf of children (teachers, nutritionists, health and sanitation workers, etc.)

Special emphasis is given to helping the poorest of the poor to meet basic human needs. UNICEF programming devotes a major portion of its resources to children in this category, and UNICEF has, in collaboration with WHO, pioneered concepts of "primary health care" and other "basic services" in rural areas. The importance of self-help and direct participation by the needy in improving their conditions is emphasized.

Illustrative examples of recent UNICEF activities are:

-- Programs to supply clean water and improve sanitation in 90 countries. Over 15.5 million people (40% of them children) benefited from UNICEF-assisted installation of more than 75,200 pure water supply systems.

-- Applied nutrition programs in 104,400 villages, involved with equipping nutrition centers and demonstration areas, community and school orchards and gardens, fish and poultry hatcheries, and seed production units.

-- Equipping more than 83,100 primary schools, secondary schools and teacher-training institutions, and 1,000 vocational training centers with modern teaching aids--including maps, globes, science kits, blackboards, desks, reference books and audiovisual materials.

-- Supplying equipment to more than 13,600 child welfare and day-care centers, 1,300 youth centers and clubs, and 3,700 women's centers or cooperatives.

In 1980 UNICEF received $250 million (excluding separate Kampuchean relief program funds) including some $50 million from private, nongovernmental sources. UNICEF program activities for the same year were in the following areas:

-- Child health	26.8%
-- Water supplies	19.3%
-- Social welfare services for children	15.6%
-- Formal education	14.7%
-- Family planning and other	10.0%
-- Child nutrition	9.8%
-- Non-formal education	3.8%

The US Government has been a prime supporter of UNICEF since its inception, and the UNICEF Executive Director (currently James Grant) is an American national. Although the United States has been the largest single contributor until recent times, its proportional share declined from 69% in the postwar period to an estimated 15% in 1980. In 1980 Sweden succeeded the United States as the largest single donor, with an official contribution of $35 million compared to the US contribution of $34.6 million. In 1979, UNICEF received $16.5 million from private American donors.

The World Health Organization (WHO)

The World Health Organization functions as the coordinating authority on international public health and works to build strong national health services to enable individual countries to meet essential health needs through their own domestic program capacity. Since its formation in 1948, WHO has worked to eradicate endemic and other widespread diseases including smallpox, malaria, tuberculosis, and venereal diseases. It has promoted the worldwide planning of health services, particularly in the areas of nutrition, immunization, environmental sanitation, maternal and child care, and mental health. Its experts have generated advanced programs which train community health workers, and retrain medical and paramedical personnel in low cost technologies. These programs have produced remarkable gains for the traditionally underserved rural and tropical areas which are particularly prone to outbreaks of highly communicable diseases. WHO has worked most effectively in developing international standards for medical diagnostic

procedures and promoting the adoption of these regulations with respect to food, biological, and pharmaceutical products. The Organization is highly proficient in its emergency response capabilities, working with numerous international organizations in providing personnel and supplies on short notice to disaster areas around the globe.

A major shift of emphasis in WHO strategy occurred in 1977 when the World Health Assembly adopted an ambitious new goal for the Organization -- "Health for all by the year 2000" or, more specifically stated, attainment by the world's population by 2000 of a level of health that will permit socially and economically productive life. This goal has struck a responsive chord in industrialized as well as developing countries. It is stimulating governments to begin filling vital gaps in their respective health services.

This shift in WHO's emphasis to political advocacy on behalf of equity in health care evidences a recognition that solutions to health problems lie more within the affected countries than in Geneva. While this shift is not intended to undermine WHO's major disease eradication programs (among which the global eradication of smallpox has been an outstanding achievement), the central role of WHO is evolving from primarily the provision of technical assistance to one of coordination and development of new methodologies. Strengthening indigenous health management and planning capacities in developing countries is a main feature of this new direction, with WHO providing training, helping health ministries to identify priority health problems, and helping member countries to obtain and use external assistance. As an example of developing new approaches to chronic problems, WHO training activities are becoming focussed on upgrading the skills of indigenous auxiliary health personnel rather than relying exclusively on small numbers of doctors and nurses. This new policy has the full encouragement of the US Government.

While the "Health for All" strategy highlights the needs of neglected people within developing countries, WHO is also concerned with health problems of a universal nature. It has begun work on a code for the marketing of infant formula and is giving increasing attention to the health hazards of smoking. Drug abuse and access to clean water and sanitation are other programs of major concern to WHO.

WHO has the largest regular budget ($214 million in 1980) of any UN Specialized Agency and, in addition, expects to receive more than $180 million from extra budgetary sources such as UNDP, UNFPA, member governments, and private agencies.

The United Nations Capital Development Fund (UNCDF)

UNCDF was created in 1966 for the purpose of providing, on a grant basis, seed money for catalytic demonstration projects for the poorest people in the poorest countries. Operating under the administration of the UN Development Program, the UNCDF supports self help projects too small for the multilateral development banks to fund and promotes the application of appropriate technology concepts. By the close of 1979, UNCDF was assisting 133 projects in 32 countries. Project approvals, totaling $41.2 million in 1979, reflected the following emphases:

-- Drinking water supplies	31%
-- Agricultural production	19%
-- Small industries	10%
-- Rural health and nutrition	9%
-- Low cost housing	8%
-- Rural feeder roads	7%
--Rural schools	6%
-- Rural electrification	5%
-- Social welfare	3%
-- Transport and communications	2%
	100%

UNCDF priorities coincide with US interests in bringing grass-roots level assistance to the poorest people with emphasis on appropriate light capital technologies. The United States became a contributor in 1978 with a pledge of $2 million, which was renewed for the same amount in 1979 and 1980.

International Fund for Agricultural Development (IFAD)

The International Fund for Agricultural Development (IFAD) is described in the next section of this report.

Other Programs

There are a number of other UN agencies which are involved in the development process through the provision of technical and humanitarian assistance, and promoting scientific cooperation, education, training and research.

These include:

The World Food Program (WFP) has, since its establishment under joint UN/FAO auspices in 1962, served as the principal multilateral agency providing food aid in support of agricultural and rural development in developing countries. Supported by the United States and more than 100 other donor countries, WFP undertook new projects in 1979 totalling $430 million. Food assistance was provided to 30 countries for a total value of $96 million.

UN Southern Africa Development Programs consist of three programs in Southern Africa, including the: UN Institute for Namibia which operates a training course to prepare young Namibians in civil administration in anticipation of their country's transition to independence; UN Educational and and Training Program for Southern Africa which operates scholarships for Africans in minority ruled territories; and, the UN Trust Fund for South Africa which assists, through private organizations, victims of discrimination in South Africa.

The UN Decade for Women supports improvements in the status of women and their increased participation in the development process.

The International Labor Organization (ILO) is a lead agency in the UN system for technical assistance programs relating to both urban and rural employment creation in developing countries. The ILO provides technical assistance programs in vocational training and management, employment promotion, industrial relations, labor administration, worker education, working conditions and environments, social security, and sectoral activities including cooperatives, hotel and tourism training, and training for maritime workers. The funding level for ILO technical assistance was approximately $95 million in 1980.

In February 1980 President Carter, with the support of American trade unions and employer organizations, announced the US decision to rejoin the ILO. President Carter noted that the ILO, the only UN Specialized Agency with official participation by worker and employer as well as government delegates, had taken steps to strengthen the independence of worker and employer delegates; had undertaken investigations of human rights violations in a number of countries including the Soviet Union; and had generally reduced the level of politicization in this organization.

Major UN Sponsored Development Conferences in 1980

-- The first high level meeting of the Review of Technical Cooperation Among Developing Countries (TCDC) took place in Geneva from 26 May to 2 June. One hundred fifteen countries attended this follow-up meeting to the 1978 TCDC conference in Buenos Aires and reported on progress made since 1978. The consensus was that TCDC is now established as an important means for building national and collective self-reliance and for fostering economic and social development.

-- World Conference on UN Decade for Women The purpose of the Conference, which took place in Copenhagen in July, was to assess progress made towards advancing the status of women, with particular reference to the goals of equality, participation in development and peace during the first half of the UN Decade (1975-80), and to development of a program of action at national, regional, and wider international levels of cooperation for the second half of the Decade. It was with considerable disappointment that, on the basis of the reports and other documentation prepared for the Conference, participants determined that there had been no real progress for women in such sectors as education, employment and health, and that the worldwide situation of women had, in fact, worsened during the period 1975-1980. A program of action was subsequently adopted, along with 48 related resolutions. Unfortunately, because of the inclusion of several paragraphs of unacceptable language concerning the Middle East situation, the US delegation was obligated to vote against the Program of Action. The United States, which initiated the idea of the UN Decade for Women, remains strongly committed to the goals of the Decade and will continue to participate in the second half of the Decade's activities in accordance with the World Plan of Action adopted at Mexico City in 1975.

-- Eleventh Special Session of the UN General Assembly

The Special Session met in August 1980 with the dual goals of completing the International Development Strategy (IDS) for the Third Development Decade and launching the global negotiations. The IDS--a general blueprint for development expounding international development goals

and aspirations for the 1980s as well as policy measures to achieve them in virtually every subject area of the North-South dialogue--was put into final form for adoption by the General Assembly at its 35th Session. The Special Session was unable to reach agreement on procedures for launching a round of global negotiations, and that item was carried over into the regular session of the General Assembly.

(See Section II. E. on the North-South Dialogue for more detail.)

IV. B. 2. THE INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

The World Food Conference, held in Rome in 1974, adopted a number of resolutions calling for actions to enhance world food security, promote food production in the developing countries, and increase assistance by the international community in a common effort to attack the problem of hunger. In light of the urgent need to deal with existing and prospective food shortages, the Conference resolved that an International Fund for Agricultural Development (IFAD) should be established to finance agricultural development projects, primarily for food production in the least developed countries.

As one of the World Food Conference's most active participants, the United States supported this resolution. Subsequently, with the support of the United States, the 7th Special Session of the UN General Assembly in 1975 incorporated in its resolution on development and economic cooperation a call for the establishment of IFAD.

Inaugurated in December 1977, the International Fund for Agricultural Development is a specialized agency of the United Nations, whose purpose is to mobilize resources for agricultural loans and grants in developing member states. IFAD gives highest priority to projects in the poorest food deficit countries and concentrates its resources on activities that assist small farmers and landless poor.

US Participation and Contributions

United States support for IFAD derives from four US interests:

- -- Increasing total resources available to alleviate poverty, hunger, and malnutrition;
- -- Employing the landless poor;
- -- Improving relations with the developing nations;
- -- Increasing the participation of non-OECD donors, particularly the OPEC countries, in providing multilateral resources for development.

Although the Fund makes a modest contribution to the overall flow of resource requirements, IFAD has been a particularly important development instrument because of the unique extent of the involvement by OPEC members as major donors. Similarly, IFAD is also an institution that more advanced developing countries may support with their own assistance.

In both respects, the resources that IFAD has generated for equitable development have been additional to those that would otherwise be available. This may not be immediately apparent with respect to OPEC funds since the individual OPEC contributions were channelled through the OPEC Special Fund. In reality, the OPEC Special Fund has served mainly as a conduit for the contributions of the individual OPEC members.

The United States provided strong leadership in IFAD from an early stage. In September 1975, Ambassador Moynihan announced to the UN General Assembly the US commitment to seek authorization of a direct $200 million contribution to the Fund, provided that others would add their support for a combined goal of a least $1 billion. This announcement was a decisive step towards the creation of IFAD.

In December 1975, the Congress recognized the potential of IFAD by authorizing the President's request to participate in IFAD and to contribute up to $200 million (PL 94-161, Sec. 302). Approval was conditional on satisfactory agreement on the Fund's Articles of Agreement with a review by relevant Congressional Committees, and on commitments to IFAD totalling at least $1 billion with equitable burden-sharing among the different categories of contributors.

The $200 million pledge to the Fund by the United States has been paid in three annual installments in the form of non-negotiable, non-interest bearing letters of credit. Actual cash disbursements from the United States amounts to less than $20 million. This represents the US share of a draw down from all donors on a *pro rata* basis at the time of the Fund's first call for a resource drawing. A second draw down approved at the end of 1980 will result in a further disbursement of $10 million in early 1981.

Within the US government, IDCA has been responsible for policy coordination and determinations with regard to US interests in IFAD. IDCA also provided the US representation at the Governing Council and Executive Board meetings of the Fund. The Deputy Director of IDCA served as US Governor at the December 1980 meeting of the Governing Council, and represents the US on IFAD's Executive Board.

In reaching policy decisions on IFAD, IDCA was assisted by several different inter-agency groups. IFAD projects, for example, were reviewed for economic and technical soundness by the Treasury-chaired working group on multilateral assistance. In addition, all IFAD projects were submitted to the State-chaired human rights committee for determinations in accordance with US human rights policies. For IFAD policy issues in general, an ad hoc group of interested agencies (State, Treasury, USDA, and AID) regularly participated in reviewing and clearing US positions.

MAJOR DEVELOPMENTS IN 1980

During 1980, IFAD approved loans totalling $384 million for 27 projects, compared to 23 projects in 1979 and 10 in 1978. In addition, technical assistance grants totalling $15 million were also approved during the year. Of the 27 projects approved in 1980, 12 were in Africa, 10 in Asia, and 5 in Latin America. Eight of the projects can be classified as rural development projects in which efforts to increase agricultural production are being combined with related basic services, e.g., potable village water, designed to improve the conditions of life of the poor as well as their productivity. In the case of projects in Ethiopia, Niger, Pakistan, Sri Lanka, Tunisia and Zaire, the major emphasis is on promoting more rapid agricultural growth through the essential agricultural inputs and services and on strengthening the institutional framework for agricultural production and marketing. Irrigation continues to be an important element in IFAD lending. For projects in Bangladesh, Bhutan, Egypt, Guinea, India, Mauritania and Sudan, the main effort is to rehabilitate or improve existing irrigation works to make them more efficient and expand the irrigated coverage. In each case, special attention is being paid to water management and agricultural services to assure that the projected increased production actually materializes.

Agricultural credit for small farmers is the main element in projects approved for Bangladesh, Dominica, Lesotho, Nepal and Peru. A number of other projects approved in 1980 also had a credit component. Traditionally, agricultural credit has gone to large-and medium-size farms. In the credit projects financed in 1980, IFAD has continued its special efforts to change this pattern in favor of small farmers. Where appropriate, IFAD has prescribed specific conditions stipulating that a maximum portion of the funds available be provided to farmers cultivating a specific maximum acreage. Additionally, supplemental resources, in both loan and grant form, are being used to finance the recruitment and training of local agents to assist small farmers in using credit effectively.

Two credit projects approved in 1980--for Bangladesh and Nepal--warrant special mention. The project in Bangladesh marks IFAD's first attempt to provide credit to stimulate small-scale private initatives off the farm but in rural areas. Though it is a small element of the project, this private sector component may provide a model for replication in Bangladesh and elsewhere in South Asia. The project in Nepal calls for the organization of small farmers and the landless poor into cooperative groups to carry out common economic activities. These groups will enjoy greater access to credit and extension services than possible as individuals, obtain benefits from a larger scale of operations, and receive mutual support.

As of the end of 1980, the cumulative total of IFAD loans approved during the Fund's first three years of operations amounted to $885 million. This represents a total of 60 loans to 48 countries -- 22 in Africa, 13 in Asia and 13 in Latin America. The regional distribution of these loans is shown in the following table:

REGIONAL DISTRIBUTION OF IFAD LOANS: 1978-80

REGION	1978		1979		1980		TOTAL	
	No.	US$(M)	No.	US$(M)	No.	US$(M)	No.	US$(M)
Africa	2	15.8	10	126.3	12	161.5	24	303.6
Asia & Near East	5	82.5	8	211.7	10	151.5	23	445.7
Latin America	3	19.3	5	46.6	5	69.5	13	135.4
	10	117.6	23	384.6	27	382.5	60	884.8

In addition to these 60 loans, IFAD also provided technical assistance grants totalling $20 million during the same three-year period. Thus total assistance commited by the Fund amounted to $905 million at the end of 1980 and increased the total number of countries benefiting from IFAD-supported projects to 69.

The largest portion of grants approved, $11 million, have been for agricultural research and related purposes, primarily to member institutions of the Consultative Group on International Agricultural Research (CGIAR). These IFAD funds have been directed to specific activities of potential help to small and landless farmers, not to general institutional support. About $5 million has been made available to countries in connection with design and preparation of loan projects, while the remaining $4 million has been provided as a technical assistance adjunct to specific loan projects. In the latter cases, the grant elements have been designed for training and for covering part of the cost of project monitoring and evaluation, recognizing this as an essential component of project implementation.

Multilaterally

In relation to total commitments, disbursements on IFAD projects so far have not been large; however, of the total of 60 projects so far approved, one-third were approved during the latter half of 1980 and have not yet become effective. Loan effectiveness normally requires six to twelve months from the time of approval. Given the Fund's initial slow start-up phase in 1978, less than a quarter of approved projects have been effective for more than one year. Of these, total disbursements by the end of 1980 amounted to approximately $80 million. Since this is roughly four times greater than total disbursements six months earlier, it is apparent that outlay on IFAD projects is now beginning to accelerate rapidly. The general disbursement experience of other institutions funding the type of projects IFAD is funding is to start slowly and then pick up significantly in the second and third year of implementation. For example, first year disbursement rates for IFAD rural development projects average less than 5 percent of the loan amount, even less than that being experienced by IDA projects.

Since IFAD's loans are still in very early stages of implementation, it is not yet feasible to assess their ultimate impact on intended beneficiaries. However, from the information now available, it is clear that IFAD loans have been made fully in accordance with the Fund's mandate. Design and appraisal work for all these projects has been carried out in conjunction with experienced international development finance agencies, and the latter have assumed responsibility in all cases for loan supervision and administration.

During the initial phase, IFAD engaged only in co-financing with major international development institutions. Beginning in mid 1979, however, the Fund commenced financing of IFAD-initiated projects which are being administered by other institutions. In these cases, IFAD has acted as the lead agency with responsibility for project identification and appraisal. In a number of such projects, IFAD is the sole external source of finance. However, in accordance with the Fund's articles and policies, other cooperating institutions such as the IBRD still carry the responsibility for project supervision and loan administration. For the three years ending in October 1980, the balance between co-financed and Fund-initiated projects shows 36 projects, involving total commitments of $470 million being co-financed and 24 projects, involving total commitments of $415 million, being Fund-initiated.

With regard to the lending terms of IFAD projects, approximately 75 percent of projects so far approved provide highly concessional terms of 50 years maturity, including 10 year grace periods and a 1 percent interest or service charge. Loans on intermediate terms of 20 years maturity, including 5 years grace and 4 percent interest, make up 20 percent of the Fund's portfolio. To date, only two loans (to Mexico and Brazil) have been extended on "ordinary" terms, i.e., 15 years maturity, including 3 years grace and 8 percent interest.

The fact that the bulk of the Fund's loans are on highly concessional terms reflects its concentration on the poorest food deficit countries. However, loans on these terms are presently somewhat in excess of the proportion envisioned in the Fund's lending policies and criteria, which provide an indicative target of two-thirds highly concessional rather than the current three-quarters. It is therefore probable that the balance will shift in the direction of harder terms relevant to somewhat higher income countries. Loans to the higher income countries must be focused primarily on low income farmers.

With regard to future lending, it must be emphasized that IFAD's ability to continue approving new projects depends not upon the rate of project disbursement, but rather upon the status of its loan and grant commitments. With the year-end total of the latter amounting to $905 million, the Fund has only $150 million remaining that it can commit from its initial funding of approximately $1.05 billion. (Initial funding was originally just over $1 billion, but appreciation of several currencies against the dollar have resulted in an increase in the dollar value of the Fund's initial resources.) In addition, the Fund has accumulated net earnings on its liquid assets amounting to $80 million which can also be used for future lending. The combined total of carry-in and earnings will permit the Fund to continue operations at its current rate through the first half of 1981. Since all available resources will then be committed, the Fund will require replenishment if it is to continue its operations beyond the middle of 1981.

The Agreement establishing IFAD provides for consideration of additional contributions not later than three years after the Fund commences (Article 4, sec. 3) to assure continuity of its operations. In accordance with this provision, the Governing Council in January 1980 adopted a resolution which invites "members to make a common effort to

ensure that the Fund's resources for the period 1981-83 are replenished at a level sufficient to provide for an increase in real terms in its level of operations". At the same time it proposed that consultations relating to the replenishment of IFAD's resources be completed before the end of 1980.

During the course of 1980, two meetings of IFAD donors were held, in May and again in November. In addition, there have been several meetings of OECD donors. On October 1, general agreement was reached in Washington to support replenishment, provided a satisfactory sharing arrangement could be negotiated with the OPEC members. Although the burden-sharing question remains unresolved, sufficient progress was achieved in 1980 to permit all members of IFAD to agree at the most recent Governing Council session in December on an overall replenishment framework. This provides that "new resources should be made available to IFAD to enable it to undertake an operational program of $1,500 million for the period 1981-83, after taking into account $230 million of estimated resources available for commitment at the end of 1980". The United States joined with other members in supporting the replenishment resolution, but in so doing, made it clear that US participation in replenishment will depend directly on how responsive the OPEC members are in terms of matching the contributions of OECD members. Further meetings of IFAD donors will be held early in 1981 to work on the technical details concerning the technical aspects of replenishment and attempt to resolve the basic question of burden-sharing between the two donor groups.

IV.B.3 THE ORGANIZATION OF AMERICAN STATES (OAS)

A significant element of the US effort to strengthen economic development in the Western Hemisphere is the technical assistance programs of the OAS. OAS assistance programs are a major source of multilateral technical assistance for economic and social development in Latin America and the Caribbean. The OAS concentrates on developing human and institutional resources to strengthen government infrastructure and the private sector of member states. To date the OAS has trained approximately 75,000 individuals, some 20,000 since 1970. Many of these OAS trainees occupy important positions dealing with economic and social development in their home governments. Others with specialized training and advanced degrees are staffing the 24 regional Inter-American Centers devoted to training, research, and dissemination of information in fields including land and water use, agricultural research, and public administration. As a result of this steady and impressive buildup of talents within the Americas, most of the OAS Technical Assistance Teams are made up of experts from member countries.

Other multilateral and bilateral donor agencies have come to recognize the technical capability of the OAS. Much of the current UNDP staff in Latin America received its training under OAS auspices; UNDP and UNEP rely increasingly on OAS as executing agent for activities in this hemisphere. In their respective fields of endeavor, OAS, UNDP, and UNEP have worked out a mutually complementary relationship with OAS mustering indigenous talents and UNDP and UNEP concentrating primarily on providing sectoral expertise and specialties that cannot be found within the region. OAS is the prime mover in regional river basin economic development schemes which sometimes extend across several national frontiers; these projects have recenty given increased emphasis to nutrition, education, and other social needs of the poor segments of the population located in these basins. The Upper Paraguay River Basin (contributions: OAS $535,000; UNDP--$1,509,000; and Brazil--$10,000,000) and the Pilcamayo River Basin (OAS--$75,000; UNDP--$1,350,000; and $1,000,000 each from Bolivia, Paraguay, and Argentina)projects are illustrative of OAS efforts in this area. Similar projects, but with UNEP participation, include the Bermejo River Basin and the Peruvian Selva Central.

The OAS mobilizes the entire Inter-American system behind its technical assistance projects. OAS feasibility studies and project development work have led to follow up funding by the Inter-American Development Bank as well as other international financial institutions. The total spinoff has been estimated at approximately $6 billion in the past decade. OAS projects draw on technical and other resources of the Inter-American Institute of Agricultural Sciences and the Pan American Health Organization for an integral approach to specific technical assistance goals. Coordination among the three organizations is greatly enhanced by the common language, common educational background of their staffs, and existence of mutually accepted criteria for division of labor.

OAS expenditures for development purposes in 1980 amounted to $45.5 million, of which the United States contribution was $25.5 million. The other member states contributed the major portion of the remainder; non-member countries, including Canada, Spain, and Germany, contributed $4.1 million. Although the US share was initially set at two-thirds of total funding, this share has been gradually declining as more developed members of the area, e.g. Brazil, Argentina, Mexico, and Venezuela make greater contributions. This trend towards fairer burden sharing has strengthened the common development efforts of member countries. Approximately 58 percent of expenditures go to technical assistance and support activities, with the remainder allocated to training, research, studies, and dissemination.

In the latter part of 1980, the OAS commenced preparatory work to examine priority problem areas facing the region, including food, natural resources, alternative energy sources, and technology, with a view to strengthening cooperative efforts. The United States is supporting this regional initiative expected to culminate in an OAS General Assembly Special Session on Cooperation for Development in the latter part of 1981.

IV.C. US BILATERAL ASSISTANCE

The United States has vital economic, political, security, and humanitarian interests in the developing countries. Without their commitment and cooperation, little will be achieved toward solution of such global economic development problems as world hunger and malnutrition, excessive population growth, environmental degradation and energy scarcity. While the developing countries must play the major role in their own economic, social, and political advancement, the support of the United States and other donors through their foreign assistance programs is critical to achieving meaningful progress toward these solutions.

The ultimate goal of the development objectives and strategy described in the preceding chapter is to help shape the future in ways compatible with the interests of the United States. The accomplishment of basic human needs objectives through accelerating equitable growth, productive employment, and the production of goods and services essential for meeting basic needs constitutes the development strategy most consistent with both humanitarian values and with US long-range self-interest. These goals are the focus of the US bilateral assistance program.

IV.C.1. THE AGENCY FOR INTERNATIONAL DEVELOPMENT

The US Agency for International Development (AID), a component of the International Development Cooperation Agency (IDCA), administers several major bilateral assistance programs: Development Assistance, channelled through government-to-government programs, and private voluntary organizations (PVOs) and Housing Guarantees (HG's); the Economic Support Fund (ESF), administered by AID and the Department of State; and PL 480 food aid, jointly administered by the Department of Agriculture, AID, and the Department of State. Each of these programs is described in separate sections which follow.

US Bilateral Assistance Administered by AID
FY 1979-FY 1981 ($ Millions)

	FY 79 (Actual)	FY 80 (Actual)	FY 81 (Est)
AID Development Assistance	1,552	1,602	1,678
Housing Guarantees	145	174	200
Economic Support Fund	1,943	2,158	2,227
PL 480 Food Aid	1,416	1,651	1,715

Recent Trends and Emphases in Bilateral Development Assistance

In 1980, IDCA and AID worked together to refine the criteria used for allocation of limited US bilateral development assistance among the competing needs of the developing countries. Initial criteria were developed on the basis of a country's needs for external assistance as indicated by per capita GNP, population, and the proportion of population falling below a poverty line. The allocation criteria also incorporated an assessment of the country's commitment to the goal of equitable growth, as demonstrated by its development policies and its progress in achieving objectives related to equitable growth. In addition to these criteria, AID field missions provided assessments of domestic resource availabilities, administrative capacity, and the amount and type of assistance given by other donors.

Other factors were also evaluated including the comparative advantage of US technical and financial assistance in supporting certain priority sectors and the potential impact which US economic aid might have on US political and economic interests in the individual country. Through the application of these criteria, the candidates for US assistance were ranked identifying those countries meriting priority consideration in the allocation of development assistance.

AID programming policy has continued to produce an increasing concentration of bilateral Development Assistance in lower income developing countries. The percentage of these funds allocated to countries eligible for the soft loan terms of the World Bank's International Development Association (i.e., those countries with annual per capita incomes under $680) increased from 82 percent in FY 1979 to 89 percent in FY 1980. This resulted in over 70 percent of development assistance being focused in FY 1980 on the two regions with the largest numbers of poor countries and poor people: Sub-Saharan Africa and Asia. 1/

Sectoral emphases remained relatively constant during the FY 1978-FY 1981 period. The share going to agriculture, rural development, and nutrition programs was about 54 percent; population, 16 percent; health, 11 percent; education and human resources, 9 percent; and selected development activities (including energy projects), 10 percent. Because AID operated under a continuing resolution for all of FY 1980, and will do so for at least part of FY 1981 as well, absolute funding levels showed little growth between FY 1970 and FY 1981. The energy sector is projected to increase from $19 million, or about 2 percent of total development assistance outlays in FY 1978, to $78 million or over 6 percent, in FY 1981. FY 1982 levels for all programs, however, currently are projected to rise quite substantially.

1/ This disregards centrally funded activities.

Special Modes of Development Cooperation

Board for International Food and Agricultural Development

Title XII of the Foreign Assistance Act directs AID to make more extensive use of land grant, sea grant, and other qualified colleges and universities in carrying out foreign assistance programs funded from the Food and Nutrition (Section 103) appropriation account. The legislation also directs that research and other relevant major program components be brought together in order to increase world food production. In accordance with the legislation, a Board of International Food and Agricultural Development (BIFAD) was established to assist the Administrator with the planning, development, implementation, and monitoring of food and nutrition activities involving US agricultural universities and qualified organizations in the areas of research, education, extension, and the provision of advisory services. The Board has two subordinate committees, the Joint Committee on Agricultural Development and the Joint Research Committee, and a support staff to assist in carrying out its responsibilities.

The BIFAD assisted IDCA and AID in the allocation of resources and in shaping policies and strategies affecting agriculture, nutrition, and rural development. There has been a renewed emphasis on the use of universities (the Title XII community) to assist in project identification, design, and implementation as well as analysis and program planning. A research program is being conducted through support to the international agricultural research centers as well as through the use of universities for country programs, centrally funded contract research, and collaborative research support programs ($8.0 million in FY 80). AID is also undertaking a program, under the Title XII authority, to strengthen the capability of qualified US universities in teaching, research, and extension work to better enable them to implement programs authorized by Title XII. Fifty grants have been made to universities, with 44 on a one-to-one direct cost matching basis and the balance on an outright grant basis to minority institutions. In addition, several regional seminars have been conducted to assure the best possible mutual understanding between university and AID officials regarding AID overseas agricultural and rural sector programs. Such understanding it is hoped, will help the universities to strengthen their performance in those overseas programs.

Private Voluntary Organizations

Private Voluntary Organizations (PVOs) are a valuable channel for bringing US assistance resources directly to the ultimate beneficiaries. They are effective in mounting direct people-to-people and self-help development initiatives overseas consistent with AID's mandate to meet the basic human needs of poor people. While individual commitment and dedication to service is the great strength of PVOs, it should not be overlooked that they also mobilize substantial private resources to augment the overall foreign aid effort. AID works in partnership with PVOs in international programs for disaster relief, food distribution, operation of overseas schools and hospitals, and provision of development assistance in agriculture, rural development, nutrition, health, family planning, and education.

AID collaborates with PVOs primarily through two mechanisms; the operational program grant (OPG) and the matching grant. An OPG is a direct grant to a PVO for a specific project. Since the beginning of the OPG program in 1974, the level of support for OPGs rose to more than $50 million in FY 1979 and is expected to expand further in FY 1981.

To build on the independent development capability of PVOs with extensive overseas experience, AID provides matching grants to PVOs to carry out development programs in various developing countries. AID matching grants enable experienced PVOs to increase substantially their overseas development programs initiated with funds raised by the PVOs themselves. Since the inception of this program in FY 1978, eleven PVOs have received matching grants. Funding for the matching grant programs was $5.6 million in FY 1980 and is expected to increase substantially in FY 1981.

Total AID support to PVOs increased from $150 million in FY 1979 to approximately $175 million in FY 1980, and is expected to increase again in FY 1981. This will enable AID to share with the private sector greater responsibility for implementing the nation's foreign assistance programs.

Housing Guarantees (HG)

AID plans to increase its activities in the housing sector through expansion of its Housing Guarantee Program (HG). Projects are designed to provide low cost shelter and associated urban services to low income families in the

developing countries. For example, in addition to housing development activities, projects also include approaches to improve the physical, social, and economic infrastructure of urban areas. At the end of FY 1981, the HG program is projected to reach a portfolio level of approximately $1.9 billion outstanding. Over the longer term, the United States hopes to increase its activities in the shelter sector even more by extending the HG program to additional countries. To enhance this effort, the United States plans to expand technical assistance for institution building and helping countries prepare medium-to-long-term shelter development plans.

Selected Major Developments in 1980

Macroeconomic Context and Responses

The oil price increases of the last two years and the correspondingly large balance of payments deficits of the developing countries will require them to undertake significant policy actions to adjust their economies to the new economic environment. The International Monetary Fund (IMF) is the primary source of financing to address the current needs of developing countries for additional short-term balance of payments support. The new structural adjustment lending program of the World Bank is also expected to play an important supplementary role by providing longer term non-project loans to help countries meet their current account deficits while undertaking economic policy adjustments which will bring future balance of payments deficits to more manageable proportions and maintain their growth and development momentum.

While the IMF and the World Bank will continue to play the major role in providing fast disbursing fund for balance of payments financing with a view to supporting domestic economic adjustment, there remains a need in certain countries for additional bilateral assistance in a form which supports and reinforces the efforts of the IMF and the World Bank and helps to attract private investment. For the United States, the primary instruments for providing balance of payments assistance have been the Economic Support Fund (ESF), as recently used in Turkey, and PL 480 commodities, which ease immediate import requirements. US Development Assistance has traditionally emphasized the project approach, which is generally not well suited to short-term financing requirements. However, a positive response to such requirements may be in the long-span and short-run interests

of developing countries, as well as those of the United States -- especially where the policies of the individual country assure that the assistance will support equitable growth patterns. AID is considering the possibility of non-project assistance in such situations. While the primary focus of such lending would be on supporting policy reform and assistance at the sectoral level, it will also have the further benefit of providing the country with additional fast-disbursing assistance.

Effectiveness and Efficiency

AID has continued efforts to adopt more efficient ways of carrying out development programs with smaller numbers of personnel without compromising the quality of its assistance. During the 1980 reviews of field mission country strategy statements and annual budget submissions, the possibilities for reducing staff relative to size of program were explored at length. As a result, missions have been encouraged to concentrate their programs in major functional problem areas and geographical subregions, and to consider expanding support for ongoing activities rather than embark on new and different projects. This approach would reduce the number of management units in each country program. AID will also try to identify solutions to long-term development problems which can implemented with less staff time.

Opportunities are being sought for reducing or eliminating resident staff in small programs and shifting monitoring responsibility to nearby countries. Broader sector or subsector programs are being actively explored in countries with a strong commitment to equitable development. Field missions have been asked to be more thorough and explicit in their projections of program and project staffing requirements so that an assessment can be made as to whether staff requirements are excessive relative to expected benefits. AID is considering the feasibility of shifting additional responsibility for project development and approval to the field in order to reduce the demands on Washington staff time and, coincidentally, reduce the time lag between project identification and implementation.

Fuelwood and Forestry Developments

Critical fuelwood shortages and the agricultural production problems associated with accelerated deforestation pose serious threats to the continued abilities of people in many developing countries to meet their basic needs. The World Bank estimates that, even with optimistic assumptions,

fuelwood supplies in the year 2000 will be inadequate to provide the minimum needed by the "poor majority" for cooking and heating. Energy needs are only one part of the rationale for increased attention to improved tropical forest management and reforestation. Forest removal, particularly in Asia, has intensified siltation of streams, dams, and irrigation facilities, threatening depletion of water supply in dry periods, and with consequent serious effects on agricultural production.

The following AID actions in the past year reflect growing concern over the adverse impact of deforestation, and increasing involvement in fuelwood forestry programs:

-- Project development activities were undertaken in a wide range of agroecological environments and sociocultural conditions, ranging from the middle hills of Nepal to the arid dunes of Mauritania, from well-established state forest services in India to dispersed farming communities in Upper Volta.

-- Funding for fuelwood projects expanded rom just over four million dollars in 1979 to an estimated ten million dollars in 1980.

-- Staffing needs were assessed and the US Department of Agriculture Forest Service provided additional forestry expertise for technical guidance to these expanding programs.

-- Strategic options for assistance related to forests were developed and reviewed. A policy discussion paper provided focus to a meeting of top management on forestry policy in AID. AID's participation in a fuelwood initiative launched by the World Bank has been shaped and 1982-86 funding levels proposed. A policy determination on US bilateral assistance in forestry has been drafted, A joint venture initiative has been entered into with Peace Corps. A document on possible strategies for combining donor assistance in reforestation and related activities in the context of the Concerted Action for Development in Africa (CADA) program is in preparation and will be reviewed by CADA members.

Fuelwood and forestry related efforts undertaken in earlier years have continued. Profiles of the state of the environment for various developing countries have proceeded as scheduled. Several pilot forestry efforts --integrated into rural development projects or planned as first steps in forestry programs --have moved ahead into implementation phases. AID has supported the continuing search for technologies which will permit greater efficiencies in the use of wood fuel and experimental work with alternative energy systems.

AID's Capital Saving Technology Program

In March 1980 AID submitted a Report on Capital Saving Technology to the Congress. Its recommendations constitute a comprehensive strategy designed to help provide additional opportunities for more productive employment for the poor by encouraging the widespread use of capital saving technology.

AID's interest in capital saving technology is neither new nor marginal; FY 1981 requests for capital saving technology activities amounted to over $246 million, about 18 percent of AID's development assistance funds for functional accounts and the Sahel Development Program.

AID's financial support of capital saving technology has been concentrated in the African and Asian regions and in the agriculture, rural development and nutrition functional accounts. AID is undertaking actions designed to increase the funds being allocated to capital saving technology activities. These include:

-- a renewed commitment to help low-income farmers gain access to improved capital saving production technologies; for example, by supporting adaptive research programs in dryland agriculture in Morocco and small farm crops in Peru, by supporting the development of effective extension systems in Sierra Leone, and by providing small farm credit in India;

-- a new commitment to increase substantially efforts to help small non-farm enterprises gain access to improved capital saving production technologies:

for example, by supporting action research programs on how best to reach micro-enterprises in several developing countries, by providing small enterprise credit in Lesotho; and by conducting vocational training programs in Jamaica;

-- a renewed commitment to promote, as appropriate, capital saving construction methods: for example, by supporting labor based rural feeder road construction in Mauritania, and by supporting labor intensive earthwork irrigation activities in Bangladesh;

-- supporting the creation and distribution of capital saving technology hardware, developing information systems in rural technologies in the Andean Region, and supporting private voluntary organizations which serve as links between AID and the very small enterprises which most benefit from improved access to capital saving technology;

-- creating an Intra-Agency Steering Group on Employment Generation and Capital Saving Technology and a Small Enterprise and Employment Unit within the Development Support Bureau. This has strengthened AID's staff capabilities in the Bureau for Program and Policy Coordination and the Regional Bureaus.

Research and Development Progress

AID supports research and development on critical constraints to meeting basic human needs and accelerating equitable growth. In 1980, a dramatic breakthrough was achieved toward the control of schistosomiasis or "snail fever", a particularly debilitating and widespread tropical disease. After five years of research funded primarily by AID, a Johns Hopkins University scientist developed a formulation of the drug amosconate that cures the three major forms of schistosomiasis in laboratory animals. The drug is now ready for comprehensive clinical tests on humans (the Chinese government has already experimented successfully with the new drug on 50,000 people).

People afflicted with schistosomiasis tire easily, cannot work efficiently and sometimes cannot work at all. In some areas, up to 70 percent of the population suffer from the disease. Complete control of snail fever requires not only a drug to kill the schistosome parasite in humans, but

also requires other measures to kill snails in water, provide safe drinking water supplies and sanitation facilities, and undertake public education campaigns to make people aware of the danger of infected water.

While the new snail fever drug has been the most dramatic development in 1980, there has been broad progress in other AID supported research and development programs. Three examples follow:

-- Recent research results show that certain tropical legumes can be an alternative to expensive chemical nitrogen fertilizer in developing countries. Current estimates suggest biological nitrogen fixation in tropical agriculture has the potential of reducing dependence on chemical fertilizer by 20 percent. In addition, the legume crops involved in nitrogen fixation offer the potential of a doubling in the production of high protein crops for human and animal consumption.

-- A highly successful research project in Pakistan has resulted in the development of an improved and efficient system to supply irrigation water to small farms. The Pakistani government has now undertaken a program to improve on-farm water management for small farms. The program covers several million acres. The same model is now being used by AID to help develop irrigated lands in Egypt and Sri Lanka, and the World Bank has initiated a similar project in India.

-- The AID population operations research program has designed and tested 22 family planning delivery systems in the rural, ill-served areas of 15 countries. This program expanded significantly in FY 1980, including the initiation of three projects in Nigeria, Zaire, and the Sudan --the first such projects in Africa. An already established project in Haiti reported a contraceptive usage rate among married couples of 26 percent compared to 1.3 percent when the project began two years ago.

IV.C.2. ECONOMIC SUPPORT FUND

The Economic Support Fund is a flexible tool to promote the economic or political stability of countries in which the United States has strong foreign policy interests. It is also used to provide US access to important military and communications facilities.

Although administered by AID in generally the same manner as Development Assistance, ESF resources tend to be used to address a broader range of problems. They can be used to provide immediate balance of payments support (assistance through Commodity Import Programs or cash grants to finance general imports rather than specific projects), to finance infrastructure and other capital projects necessary for long-term economic development, or to support smaller projects that more directly address the basic human needs of the poor.

The programming of Economic Support Funds is often prompted by political or security crises, but, as required by Congress, funds are directed toward basic human needs and development goals to the extent possible. Even balance-of-payments support can have a powerful, if indirect, effect on the welfare of the poor. Imports of raw materials, manufacturing and agricultural inputs, and other essential needs can help to sustain the broad level of economic activity and growth on which much employment throughout these economies depends.

Selected Major Developments in 1980

For FY 1980, $2.104 billion was requested for the Economic Support Fund. The bulk of those funds were proposed for the Middle East to support this country's continuing efforts to further the peace process. This included a cash transfer of $785 million to Israel to address inflation and balance-of-payments problems. It also included $750 million of both project and commodity assistance for Egypt to encourage long-term development activities to take place while at the same time permitting large-scale import programs necessary to maintain high growth rates and allow the Egyptian people to experience tangible benefits from the peace process.

Other important recipients in FY 1980 included Turkey ($98 million), struggling to overcome serious economic problems; the nations of Southern Africa ($65 million) where ESF is used to facilitate the peaceful transition to majority rule; and several Caribbean nations ($5 million).

Actual obligations in FY 1980 were, in fact, larger than the amounts originally requested. Several events in 1980 -- including the Soviet invasion of Afghanistan, political upheaval in the Caribbean, and swelling refugee problems in both Asia and Africa -- led to substantial reprogramming within the original budget request and to a supplemental request for additional funds. Kenya, Oman, and Somalia each received ESF in connection with access to military facilities in the vicinity of the Persian Gulf. Relatively large programs were carried out in both El Salvador and Nicaragua in efforts to foster moderate reform movements in both countries. And Zimbabwe, which elected a new government in 1980, received $23 million to assist in economic rehabilitation and refugee resettlement.

IV. C. 3. PUBLIC LAW 480 FOOD AID

Under the Public Law 480 (PL 480) program, the United States provides over 60 percent of total food aid received by developing countries. The program serves a number of objectives--combating hunger and malnutrition; encouraging economic development; promoting in other ways US foreign policy; and expanding international trade, including US agricultural exports. The Department of Agriculture and the Agency for International Development share primary responsibility for administering the program with the International Development Cooperation Agency providing development policy guidance. Food is supplied in a number of ways, (primarily for humanitarian and developmental purposes) including:

Bilaterally

-- Long-term, low interest loans under Title I to friendly developing countries to help meet chronic or unexpected food shortages. Participating countries must agree to undertake self-help measures to improve agricultural production, marketing and distribution, and attack the causes of poverty.

-- Title III, discussed in more detail below, provides for forgiveness of Title I loans if certain conditions are met by low income countries.

-- Grants under Title II to governments principally for emergency and disaster needs including refugee feeding.

-- Donations, also under Title II, to US voluntary agencies which sponsor feeding programs targetted to the needy, particularly malnourished children, and small-scale "food for work" development programs. Recipient countries make substantial contributions to these programs, including financing internal transportation, storage, and distribution costs.

Multilaterally

-- Through the World Food Program (WFP), established with US encouragement by the United Nations and the Food and Agriculture Organization in 1962. Initially, the United States contributed 50 percent of WFP's resources. For calendar years 1981-82, the United States has pledged $220 million of food and transportation costs (financed under Title II) toward WFP's target of $1 billion.

Background

PL 480 was enacted in 1954, primarily as a surplus disposal measure. In the early 1960s, PL 480 financed shipments comprised over 23 percent of the value of total US agricultural exports. This has now dwindled to less than four percent. In 1966, when the legislation was substantially revised, the emphasis on surplus disposal changed. The revised legislation emphasized assisting developing countries to improve their own agricultural production. PL 480 requirements may be taken into consideration in planning domestic farm programs. However, with the exception noted below, commodities are not available for PL 480 if these shipments would reduce the amount needed for domestic requirements, adequate carryover of stocks, and anticipated commercial exports. Even under these circumstances, some part of the supply may be made available to meet urgent humanitarian needs.

Various amendments have been added to the legislation, including:

-- A requirement that at least 75 percent of food aid provided under Title I of the Act be allocated initially to countries whose per capita income is at or below the eligibility level of the International Development Association (IDA)--$680 for 1980.

-- Title III authorizing multiyear supply agreements of up to five years with "IDA eligible" countries prepared to undertake actions, additional to those otherwise planned, to address the constraints to equitable development, particularly in the food and agriculture sector. PL 480 commodities or local currency sales proceeds used for agreed development purposes may be applied against the repayment obligation to the United States--i.e., the United States may forgive the loan. Special incentives may be offered to the relatively least developed countries. These include US financing of ocean freight and, in the case of landlocked countries, delivery to points of entry.

-- A minimum annual tonnage requirement for food donations under Title II of 1.6 million tons for fiscal years 1978 through 1980 rising to 1.7 million tons for FY 1982 and thereafter. Even if US supplies are tight, food may be made available to meet urgent humanitarian needs.

-- A requirement for a determination that adequate storage is available in recipient countries and that the distribution of PL 480 commodities will not result in a substantial disincentive or interfere with domestic production or marketing.

Major Developments in 1980

In 1980, PL 480 commodities totaled $1,566 million which financed shipment of 6.2 million tons of food--about the same as in FY 1979. Grants totaling $729 million covering shipment (including freight costs) of slightly over 1.8 million tons of bulk and processed foods were made to US voluntary agencies, the WFP and directly to poor countries to help meet emergency and disaster needs including refugee feeding. Loan commitments of $837 million provided for shipment of over 4.4 million tons of food. Over 80 percent of the food was allocated to countries with a per capita income of $680 or less. Moreover, $129 milion of these loans may be forgiven if the recipient countries carry out the additional development commitments included in Title III agreements.

PL 480 Commitments--FY 1980

	GRANTS		LOANS		TOTAL	
	Million tons a/	$ Millions	Million tons a/	$ Millions	Million tons a/	$ Millions
Commodities	1,827.2	509.7	4,374.7	836.8	6,201.9	1,346.5
Subject to Loan Forgiveness			(715.0)	(129.3)		
Ocean Freight		219.5		b/		219.5
Total	1,827.2	729.2	4,374.7	836.8	6,201.9	1,566.0

a/ Including the grain equivalent of cereal based processed food.

b/ Ocean transportation costs were financed by recipient countries except that the United States absorbed the cost of the differential, if any, resulting from the requirement that 50 percent of the cargo be shipped on US flag vessels. For FY 1980, these costs approximated $85 million.

Nineteen hundred and eighty was marked by a tragic rise in the need for emergency assistance to avert starvation in Kampuchea, for refugees streaming into Somalia and Pakistan, and for drought victims in Africa. The amount of food donated for these purposes more than doubled over the previous year. In order to meet the extraordinary level of emergency relief requirements and to expand the program to help stabilize US farm prices following the suspension of Soviet grain shipments, the Congress increased the FY 1980 PL 480 program level by $193.2 million.

The trend toward increasing food aid to Africa, which has the most serious problem of lagging food production, continued in 1980. During the last four years the value of PL 480 food inputs into Africa has more than tripled. During the same period, shipments to Latin America and the Caribbean countries almost doubled.

Food Aid Convention

The Food Aid Convention currently in effect came into force on July 1, 1980. Its objective is to achieve, through a joint effort by the international community, the World Food Conference target of at least 10 million tons of cereal food aid annually to developing countries. The obligations are basically quantitative, an important consideration in times of increased grain prices.

Under the new Convention, commitments now total about 7.6 million tons compared to 4.2 tons previously. The US commitment, which is fulfilled through PL 480 shipments, is 4.47 million tons, more than double our previous pledge of 1.89 milion tons. The Food Aid Committee may recommend that members voluntarily increase their contributions to cover emergency needs if a substantial number of low-income countries suffer a sharp shortfall in production.

Food Security Wheat Reserve Act of 1980

This legislation provides for a government held reserve of up to four million tons of wheat to be used solely for emergency humanitarian food needs in developing countries. This wheat could be made available on a grant or loan basis under PL 480 when adequate amounts could not otherwise be supplied under the availability requirements of Section 401 of PL 480. Establishment of the security reserve underscores the importance which the United States attaches to its commitment under the Food Aid Convention.

Even if supplies were not tight, up to 300,000 tons of wheat could be released annually for grants to meet urgent humanitarian needs in developing countries in the wake of major disasters. This special authority can be used when wheat needed for this purpose could not be programmed in a timely manner under the normal means of obtaining commodities under PL 480.

Most of the wheat has been purchased by the Commodity Credit Corporation (CCC) following the Soviet trade suspension. Wheat released from the reserve must be replenished promptly either by commercial purchases or, if necessary to avoid market disruption, by designating stocks otherwise held by the CCC. The authority to replace stocks to maintain the reserve expires on September 30, 1985. Wheat remaining in the reserve will be used to provide emergency food assistance.

CCC is to be reimbursed from funds made available for PL 480 on the basis of actual costs incurred or the export market price of wheat (as determined by the Secretary of Agriculture), whichever is lower as of the time the wheat is released from the reserve. The reimbursement (including costs incurred in processing, handling, financing ocean transportation, etc.) may be made from funds appropriated for that purpose in subsequent years.

IV. C. 4. THE PEACE CORPS

The Peace Corps' mission is to promote world peace and friendship by making American volunteers available to:

-- help the people of interested countries and areas in meeting their needs for trained personpower, particularly the basic needs of those living in the poorest areas; and,

-- help promote a better understanding of Americans among the peoples served and a better understanding of other countries among Americans.

Peace Corps programs are consistent with and support overall US development policy. Peace Corps provides a continuing focus within the development community on grass roots development issues and strategies.

During 1980, the person-to-person, grass-roots approach, which has been Peace Corps' hallmark for 19 years, provided increasing opportunities for collaboration with other agencies, especially AID but also multilateral and private voluntary organizations.

In addition, significant progress was made in designing and implementing new projects in the fields of forestry, fisheries, renewable energy, health, water, food production, nutrition, and education. Ongoing projects in these areas were strengthened by focusing volunteer assignments on building local capabilities, mobilizing local resources, using capital-saving appropriate technologies, and furthering efforts to fully incorporate women in the development process.

US Participation and Contributions

In 1980 nearly 6,000 American Peace Corps volunteers participated in the development efforts of 62 Third World nations. They worked in a wide variety of projects developed jointly between Peace Corps overseas staff and host country agencies, responding both to the expressed needs and interests of the host government and to the basic human needs of the poor in each country.

More than 3,000 men and women entered Peace Corps training for two-year assignments in Africa, Latin America, the Caribbean, the Near East, Asia, and the Pacific during 1980. As part of an effort to assure that all volunteers will possess not only the appropriate service motivation but also the technical skills requisite to their assignments, Peace Corps expanded the use of both Centers for Assessment and Training (CAST) and specially designed, competency-based technical skill training programs held in the United States prior to volunteer departure for the in-country phase of training. This occurred despite the fiscal limitations of a full year of funding under a continuing resolution and high levels of overseas inflation, both of which constrained planned expansion of these activities.

Although the President's budget requested appropriations of $105.8 million for the Peace Corps in 1980, just under $100 million was available under the continuing resolution. Fortunately, host countries continued to make nearly five million dollars in cash and in-kind contributions to Peace Corps projects, demonstrating their commitment to the program.

The single greatest area of expenditure continued to be the direct support of volunteers overseas. Costs of overseas staff support and the training of volunteers were the two other major expenditures. Three-quarters of all Peace Corps staff were stationed overseas in the host countries where volunteers serve; two-thirds of the overseas staff were host country nationals.

During 1980, Peace Corps had programs in the following countries:

Africa: Benin, Botswana, Cameroon, Central African Republic, Gabon, Gambia, Ghana, Ivory Coast, Kenya, Lesotho, Liberia, Malawi, Mali, Mauritania, Niger, Rwanda, Senegal, Seychelles Islands, Sierra Leone, Swaziland, Tanzania, Togo, Upper Volta, and Zaire.

Latin America and the Caribbean: Belize, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Antigua, Barbados, Dominica, Grenada, Monserrat, St. Kitts, St. Lucia, St. Vincent, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, and Paraguay.

North Africa, the Near East, Asia, and the Pacific: Fiji, Kirabat, Korea, Malaysia, Micronesia, Morocco, Nepal, Oman, Phillippines, Solomon Islands, Thailand, Tonga, Tunisia, Tuvalu, Western Samoa, and North Yemen.

During the year invitations were accepted to enter Papua New Guinea and to return to Nicaragua, while programs were being phased out by mutual agreement in Brazil and South Korea. The program in El Salvador was suspended because civil strife made it impossible for volunteers to function effectively and for volunteer health and safety to be protected.

Peace Corps volunteers served in a wide variety of individual assignments and projects, each tailored to address specific local needs. While summary statistics cannot adequately reflect the range and diversity of activities, they do provide an overview of the types of development programs in which volunteers are involved.

During 1980, approximately:

-- 25% of volunteers were working in health-related projects: nutrition and public health education, sanitation, potable water supplies, immunization; and maternal and child health care.

-- 20% of volunteers were working in food production projects: animal husbandry; crop production; marine and fresh-water fisheries; irrigation; and horticulture. Peace Corps volunteers provide the largest single force working in fresh water fish culture in the world.

-- 40% of volunteers were working in education projects: vocational and teacher training; classroom teaching; literacy; and non-formal education. Peace Corps involvement in formal education has declined somewhat as emphasis has shifted in some countries from traditional classroom teaching projects to a range of non-formal education activities.

-- 10% of volunteers were working in economic development and income generation projects: credit union, cooperative, and small business development; and marketing and cottage industries.

-- 5% of volunteers were working in energy and conservation projects: forestry and other renewable resource development (the use of pedal and solar power, more efficient cooking and heating technologies, etc.); soil and wildlife conservation and other areas of environmental protection; and a variety of other projects including integrated rural development, housing, youth work, and community services. The number of volunteers in forestry and energy projects is growing rapidly, supported by extensive Peace Corps collaboration with AID in these critical areas.

In addition to the volunteers supported directly through its bilateral programs, Peace Corps supported the service of nearly 100 US and Third World nationals in multilateral volunteer programs, particularly the United Nations Volunteer Program. In response to the growing refugee crisis, Peace Corps began a new multilateral program to assist in refugee relief in Southeast Asia and Somalia.

Major Developments in 1980

Core Curriculum

Peace Corps began the development of a core set of training goals and materials aimed at enhancing volunteer developmental effectiveness throughout the service period. This Core Curriculum integrates skills relating to the role of the volunteer in development, cross-cultural fluency, language and communications, technical and work context, and volunteer physical and emotional well-being. Specific training goals and objectives are addressed at Centers for Assessment and Training in pre-service, in-service, and completion-of-service training events.

Development Education

Plans were developed during 1980 to use the twentieth anniversary of Peace Corps' founding in 1961 as an occasion not only for raising public awareness of the Peace Corps, but also for building a foundation for activities intended to reinvolve former volunteers and staff in the agency's mission to promote a better understanding of the peoples whom Peace Corps serves on behalf of the people of the United States.

This work will be done in collaboration with private voluntary organizations, educational institutions, and other US government agencies with shared mandates to increase citizen understanding of global issues such as the International Communications Agency and the Department of Education.

Refugee Assistance

New relationships were established during 1980 which permitted the assignment of Peace Corps-sponsored United States volunteers to assist in refugee work of the United Nations High Commission on Refugees and the Intergovernmental Committee for European Migration.

Peace Corps-AID Collaboration

Cooperation between the Peace Corps and the Agency for International Development continued to increase not only at the country but also at the interagency level with the implementation of agreements in the Energy and Forestry sectors. These arrangements are aimed at developing a set of local level approaches to these critical problems, which can be replicated beyond the scope of the PC-AID agreements.

Peace Corps-ACTION Relationship

This was the first full year of implementation of the Executive Order establishing Peace Corps as an autonomous agency within ACTION. Resources were transferred from ACTION to create budget, planning, personnel, legal counsel,and other support offices within Peace Corps. The Office of Development Education was established to mobilize returned volunteers and others in more structured activities aimed at the accomplishment of Peace Corps' third legislated goal: "helping to promote a better understanding of other people on the part of the American people."

IV. C. 5. THE INTER-AMERICAN FOUNDATION

The Inter-American Foundation (IAF) is a public corporation created by Congress in 1969 as an experimental alternative to established assistance programs in Latin America and the Caribbean. Granted authority to conduct its affairs independent of other US foreign policy agencies, the IAF works to promote more equitable, responsive, and participatory approaches to development and foreign assistance in the region. Approximately 60 percent of the Foundation's funds come from Congressional appropriations, and the remainder from the Social Progress Trust Fund of the Inter-American Development Bank.

Under its legislative mandate, the IAF is charged with responsibility to:

-- Assist initiatives of Latin American and Caribbean organizations that provide opportunities for the social, economic, and cultural development of low income and otherwise disadvantaged groups;

-- Foster the participation in community and national development of those groups that are usually denied a voice in development decisions and largely excluded from the benefits of programs;

-- Encourage the emergence and growth of democratic institutions in the region;

-- Contribute to public understanding and debate about institutions, policies, and programs that shape and constrain economic and social change in Latin America and the Caribbean.

The IAF is governed by a seven-person Board of Directors appointed by the President of the United States. Four members of the Board are drawn from the private sector and three from government. A President appointed by the Board serves as the chief executive officer of the Foundation. The 65 person staff is located at the IAF office in Rosslyn, Virginia, just outside Washington, D.C. Staff members travel regularly to Latin America and the Caribbean to review current projects and new proposals. The Foundation maintains no overseas staff or offices overseas.

The Foundation selects projects for support from the large number of proposals it receives. The IAF responds to initiatives coming from Latin American and Caribbean groups and does not set goals or directions for those who receive its assistance. The Foundation does not have fixed priorities or guidelines for the allocation of its funding among countries, institutions, or program sectors. Its small size and independence allow the IAF to respond more quickly to proposals than other aid agencies and to support many organizations and ideas that might otherwise not have access to external assistance.

US Participation and Contributions

During the past decade, the Inter-American Foundation made grants totalling more than $100 million for about 900 projects in 27 nations of Latin America and the Caribbean. IAF grants have varied in size from less than $1,000 to $2.5 million; the average grant has been about to $120,000. In Fiscal Year 1980, the Foundation approved approximately 200 new grants totalling $19 million. In addition, the Foundation approved the expenditure of an additional $5 million for supplements to grants made before 1980. The Foundation concentrated its spending on projects that:

-- Strengthen peasant, worker, and community groups so they can better promote the social and economic interests of their members. Particular attention is given to organizations that are participatory and democratic in their operations, are prepared to commit their own resources to the objectives being sought, and are likely to continue to grow and develop beyond the period of IAF assistance.

-- Support the development of institutions that can foster cooperation among peasant, worker, and community groups and provide them with such services as credit, technical assistance, training, and marketing and distribution facilities. Important among these institutions are federations of cooperatives, private development foundations, church and university programs, and agricultural service organizations.

-- Explore new approaches to the problems of deprivation among and discrimination against the particularly disadvantaged: ethnic and racial minorities, the rural landless, poor women, unemployed youth, and Indians. Promising activities are being supported in education, health and nutrition, job creation, legal aid and human rights, and cultural expression.

-- Promote research and analysis at Latin American centers that can document and explain the conditions of poor and disadvantaged groups, assess the implications of alternative government policies and programs on the welfare of these groups, and clarify the issues and choices facing poor and disadvantaged people as they work to improve their situation. The Foundation also maintains a competitive program of fellowships awards for doctoral and masters degree candidates at US universities to conduct field research in Latin America and the Caribbean.

Among the grants made in 1980 were the following:

1. A grant of $5,500 to the Farmers Cooperative of Boetica, in Dominica, to buy power saws, tools, and agricultural supplies to clear woodlands and expand agricultural production.

2. A grant of $15,000 to the Universidad Catolica de Santa Maria, in Peru, to support its legal aid clinic for poor residents of Arequipa.

3. A grant of $34,000 to the Cooperativa Agropecuaria Artesanal "La Siembra," in Bolivia, to support the work of rural peasant women artisans.

4. A grant of $164,424 to the Cooperativa de Pescadores del Litoral Atlantico, in Costa Rica, so that the fishing cooperative can diversify its activities and build a cold storage chamber.

IV.D. REFUGEE ASSISTANCE

Increasing international attention is now being focussed on the development implications (in addition to the traditional political and humanitarian concerns) of the growing number of refugees. The following section describes the US refugee assistance effort.

There are several aspects of the development dimension of the refugee problem. The inability of many developing countries to support their populations is both reflected in and aggravated by the growing numbers of refugees. The most persistent refugee problems have occurred in the depressed areas of Africa and Southeast Asia, where long-term development resources are already stretched thin. Many of the "countries of first asylum" are among the least developed countries; their already overtaxed development infrastructures are unable to accommodate the massive and unexpected inflows of new refugees. The massive needs of refugees place additional strain on the limited international funds available for assistance to developing countries.

In 1980, President Carter signed a new Refugee Act to strengthen US refugee policies and programs. The Act provides for comprehensive and uniform treatment of refugees seeking resettlement in the United States, regardless of their country of origin but taking into account conditions overseas, US foreign and domestic policy considerations, and available resources.

The magnitude of the worldwide refugee crisis challenges the generosity and patience of the United States, major industrialized nations, countries of first asylum, and international and regional organizations. Since the Refugee Act came into effect, the United States has been assessing the world refugee situation and has made some preliminary findings, some of which follow;

-- Armed conflict, civil disturbances, famine, and human rights violations were the primary causes for the continued growth in the number of refugees and displaced persons during the past year.

-- Refugees impose serious economic, political and social strains on countries of first asylum. Of equal concern to many governments is the destabilizing impact that large numbers of refugees and displaced persons have on the internal political, social, and ethnic balance of their societies and on regional peace and stability.

-- The industrialized countries--with the United States, Japan, and the European Community in the lead--continue to provide most the funds for the international refugee relief effort.

-- Well over one million persons have fled their homes in Indochina since the fall of the governments in Laos, Cambodia, and Vietnam in 1975. Of those who fled, over 450,000 Indochinese have been admitted to the United States, about 250,000 have resettled in other non-communist countries, and some 260,000 Vietnamese of Chinese ethnic origin have resettled in China. The flow of Indochinese refugees, which peaked in May and June 1979 with almost 60,000 arrivals a month in first asylum countries, dropped following the Vietnamese moratorium on illegal departures. The rate began to rise again in 1980, and arrivals have averaged almost 13,474 monthly from April through October 1980. An additional 140,000 Khmer remain in Thai holding centers. Resettlement needs remain urgent. The UN High Commissioner for Refugees (UNHCR)-sponsored Orderly Departure Program from Vietnam has been slow but has recently picked up momentum.

-- More than a year after the Vietnamese invasion, Kampuchea struggles to provide adequate food for its population. Continued insecurity has forced major population shifts and disruption of the food production cycle. Because of the continued disruption of planting and the ensuing food shortages, relief assistance by the international community remains an important part of the efforts to avoid further human tragedy in Kampuchea. The UNHCR hopes to encourage voluntary repatriation through economic incentives which allow those who wish to return home to have some hope of subsistence.

-- There are estimates of some 3 million refugees on the African continent. The need for refugee assistance is critical. Political and military conflict and the number and needs of African refugees are not expected to decrease in the foreseeable future. The African refugee situation is unique in the agreement of most African countries, to assume primary responsibility for the continent's refugees and to provide asylum wherever possible. An international pledging conference is scheduled for April 1981 in Geneva to provide new funding for African refugee relief.

-- There are more than 1.2 million refugees who have fled to Somalia from southern and eastern Ethiopia. Of these, some 474,000 were in relief camps in December 1980, and an estimated 1,000 additional refugees are arriving daily. There are another 770,000 refugees struggling to stay alive living outside Somali camps.

-- The resolution of the conflict in Zimbabwe enabled 250,000 people who fled to Zambia, Botswana, and Mozambique to return to their homes. Efforts are being made to resettle some 800,000 others who were internally displaced because of the conflict.

-- Approximately 1 million Afghans have sought asylum in Pakistan, imposing an additional strain on a country experiencing major economic difficulties.

-- The climate for emigration from the Soviet Union is more difficult this year. Reports indicate that official harassments of would-be emigrants has increased. The changed character of US-Soviet relations has led to a sharp decline in the number of emigrants as compared with last year's high level.

-- In the aftermath of the Nicaraguan revolution, close to 200,000 Nicaraguans who sought refuge in neighboring countries have returned to their homeland. Some 20,000 others fled Nicaragua because of the change in government.

-- Between April and December 1980, about 125,000 undocumented Cubans entered the United States by boat from the Cuban port of Mariel, adding a critical new dimension to the refugee problem. In addition, over 10,000 Haitians arrived in the United States seeking asylum.

US Policy Objectives

The United States seeks to:

-- share the burden of refugee relief and resettlement with the international community;

-- alleviate those conditions which create refugees and threaten US national security interests by encouraging regional destabilization;

-- encourage voluntary repatriation or resettlement in place wherever possible;

-- establish equitable and comprehensive criteria for resettling persons considered refugees under the terms of the Act;

-- fulfill US obligations to those for whom the United States has a special humanitarian concern.

Progress Toward Meeting Objectives

The US Government has made a major commitment to assisting refugees. For FY 1981, the United States will commit approximately $532 million to support refugee relief and resettlement efforts. Expenditures for care and maintenance of refugees abroad are projected at $169 million; another $259 million will be spent in connection with bringing refugees to the United States for resettlement; $104 million will be contributed to refugee budgets of international organization.

The most expensive part of the US program, however, is the actual resettlement of refugees. In addition to the State Department expenditures, other US-Government agencies will expend in FY 1981 at least another billion dollars in helping refugees integrate into US society. In FY 1980, the United States admitted some 212,000 refugees from throughout the world. Among the refugees admitted were 168,000 from Indochina, 27,000 from the Soviet Union, and 5,000 from Eastern Europe. The United States increasingly has become a country of first asylum, receiving 125,000 Cubans as well as 11,000 Haitians.

The United States has no reliable statistics on other countries' total expenditures for refugees, but as of June 1980 they had contributed some $207 million to the relief efforts of the UNHCR. Several Western countries also conduct their own major relief and resettlement programs. Many African countries have used their limited means generously in helping and settling refugees.

Examples of some US relief programs are:

-- The effort to avert mass starvation in Kampuchea, which began in October 1979 with an intensive international food and medical relief program undertaken by the International Committee for the Red Cross (ICRC), the United Nations Children's Fund (UNICEF), the World Food Program (WFP), the UNHCR, and many private voluntary agencies. Since October 1979, the US Government has committed $120 million to an overall relief effort of approximately $410 million.

-- In Somalia there are 26 camps holding 765,000 refugees in four widely separated regions of the country. Ninety percent of the refugees are women and children. The camps are managed by the Somali National Refugee Commission with increasing assistance from UNHCR and voluntary agencies. The United States is the largest single donor to the program, providing in FY 1980 102,521 metric tons of food valued at $26.4 million, plus $10.6 million for shipping. The European Community has supplied some 31,000 metric tons.

-- The Pakistani Government and the UNHCR have provided humanitarian aid to over one million Afghan refugees. The UNHCR issued an international appeal for $100 million to meet refugee needs. The United States, Japan, and a number of other countries responded. In FY 1980, the United States provided food commodities worth $39 million, $7.5 million in cash and in-kind contributions, and $2.3 million worth of rupees for local purchase.

-- In FY 1980, the Peace Corps developed its first program focussed specifically on the refugee issue. In cooperation with the United Nations High Commissioner for Refugees and the United Nations Volunteer Program, Peace Corps provides volunteers to the Philippines, Malaysia, and Somalia. In addition, Peace Corps provides volunteers to the Intergovernmental Committee for Migration in the Philippines and Indonesia. The volunteers are supervising programs for teaching English as a second language, cultural orientation, and medical evaluation in Southeast Asia. The volunteers in Somalia primarily are managing distribution of relief supplies to refugee camps.

All the relief programs depend heavily on international organizations such as the UNHCR, the ICRC, and the Intergovernmental Committee for Migration (ICM). These organizations provide personnel, coordination and management for the relief operations of voluntary agencies on the ground.

Beyond meeting immediate needs through relief efforts, the US program focuses on: longer-term solutions based on voluntary repatriation; resettlement in place; and, as a last resort, resettlement in third countries including the United States. Approximately 200,000 Nicaraguan refugees returned after the change in government. Hundreds of thousands resettled in Zimbabwe after the end of the civil war. Some 500,000 Indochinese refugees have settled in countries other than the United States.

IV.E. THE OVERSEAS PRIVATE INVESTMENT CORPORATION

The Congress has mandated that the Overseas Private Investment Corporation (OPIC) "mobilize and facilitate the participation of private US capital and skills in the economic and social development of less-developed friendly countries and areas, thereby complementing the development assistance objectives of the United States." All of OPIC's programs -- political risk insurance, direct loans and loan guaranties, feasibility study assistance, and investment missions -- are designed to further economic and social development by acting as a catalyst to increase the flow of private capital, technology, and know-how to projects that are compatible with development assistance programs and projects of the United States and other donors. The development benefits of OPIC-assisted projects include, among others: increased employment; transfer of skills and technology; foreign exchange benefits; stimulation of local enterprises; increased production and improved distribution of food; and the generation of host government revenues.

OPIC operates all its programs on a self-sufficient basis and requires no appropriations from the Congress. OPIC is a component agency of the International Development Cooperation Agency: the IDCA Director chairs the OPIC board.

As set forth in its Congressional directives, OPIC selectively assists US investors. The projected development impact of each proposed project is analyzed in accordance with criteria established in cooperation with the US Agency for International Development (AID). Each project must not only be compatible with host country development objectives, but also not cause a significant adverse impact on the US economy -- especially US employment. In addition, all projects are reviewed by the Department of State with respect to human rights considerations.

The ability of OPIC to act as a catalyst and to increase the flow of investment to the developing nations is directly affected by a variety of external factors which also, and more directly, influence private investment decisions. For example:

-- The opportunities for commercially attractive (profitable) business investments vary from country to country depending on the size of markets, availability and world market price of raw materials; transportation; and availability of foreign exchange and local capital.

-- Perceptions concerning business prospects, the foreign investment climate in the host country,and the likely future course of political events.

Each OPIC program is designed to overcome one or more specific disincentives or obstacles to increased foreign investment:

Political Risk Insurance

US investors considering a developing country investment seek to identify and evaluate specific political factors that might affect the profitability or the security of the investment. They then decide either to avoid the risks altogether, assume and adapt to them, or transfer a portion of the risk to another entity. The availability of OPIC insurance can make individual investment opportunities more attractive by providing for such transfer of risk.

Direct Loans and Loan Guaranties

These financing facilities are designed to supplement or complement conventional sources of long-term financing. Direct investment loans are only available for projects sponsored by US small business and cooperatives or private voluntary organizations; loan guaranties are not restricted in this manner.

US investors, particularly smaller businesses, quite often encounter difficulties in negotiating loans when a bank has reached the limit of its exposure in a particular country or when the bank's political risk assessment of a country inhibits granting the loan. Quite often the proposed terms of the loan would adversely impact the viability of the project. Also, the US banks which typically service the financial needs of smaller businesses may be unable to accommodate loans to finance overseas ventures because of unfamiliarity in granting such loans. In the absence of local host country branches, a bank may deem the expense of negotiating the loan prohibitive.

Investment Missions/Feasibility Study Assistance

These programs are designed to overcome obstacles to investment created by a lack of sufficient information about project opportunities in foreign countries. The investment mission program helps to introduce and interest potential US investors to projects in countries in which they might otherwise have little or no interest. It provides a "high-level" introduction to the country, its officials, and its business community in a short time.

OPIC's financial assistance for feasibility studies encourages investors to put their own corporate resources into project opportunities in which they might not otherwise invest. This cost sharing assists potential investors to contract for the services of consultants in areas where the investors may lack necessary expertise.

Each of these two programs is designed to encourage companies to place a higher priority on investigating business opportunities in developing countries about which they may be unfamiliar rather than expending their limited corporate resources on projects in the more familiar developed countries. Smaller businesses, businesses new to foreign investment, or those unfamiliar with a particular overseas region tend to be the primary users of these programs.

Major Developments in FY 1980

In 1980, OPIC insured 94 projects and made commitments to finance 18 projects in 39 countries. The total insurance coverage written amounted to $1.1 billion, an increase of 40 percent over fiscal year 1979. Of the total insurance written, $322 million was for inconvertibility, $363 million for expropriation, $424 million for war, revolution, and insurrection; $33 million included coverage to insure construction contractors against the risk of arbitrary drawing of on-demand letters of credit. Loan and guaranty commitments involving the 18 finance projects aggregated to $184 million.

The total overall investment of the 112 projects is approximately $2.5 billion. US investors will provide over 37 percent of the capital needs; host countries' sources will supply about $494 million; third country participation will

be approximately $1,028 million; and multilateral lending institutions will supply an estimated $44 million. Local ownership will be involved in 91 of these projects and in 63 cases local joint venture partners will own more than 50 percent of these enterprises.

Impact on Economic Development of Developing Countries

Estimates are that the 112 projects will generate an increase in exports of $1,012 billion and will allow the host countries to replace $698 million in imports. Production-related imports will amount to $506 million and capital outflows will be $313 million, a net foreign exchange savings of $907 million annually.

OPIC's emphasis on job-creating projects is aimed at alleviating the unemployment and underemployment characteristic of most developing countries. In all, the 112 projects are expected to create an estimated 17,000 new host country jobs. Thirty-three (33%) percent of this number will be in management positions. In addition to the direct employment provided by these projects, thousands of peripheral job opportunities will be created by the increased demand for local goods and services. Approximately $697 million of the original investment funds will be spent locally and an additional $45 million in other less developed countries.

Regional and Industry Profile

The greatest number of projects receiving OPIC assistance were undertaken in Near East/South Asia (38). East Asia ranked second (33), followed by Africa (20), Latin America (19), Yugoslavia (1), and Greece (1). In keeping with its mandate from Congress, OPIC made a concerted effort to encourage investment in the poorest countries. Of the 12 projects, some 59 projects involved less developed countries with per capita incomes of $520 or less (measured in 1975 dollars).

During Fiscal 1980, OPIC assisted 34 projects related to services (including technical assistance) and tourism; 27 manufacturing projects; 19 construction projects; 17 agribusiness projects; and 15 projects involving mineral and petroleum exploration.

Investment Promotion and Facilitative Assistance

During the past fiscal year, OPIC continued its special effort to broaden the scope of participation by small business enterprises in the development process of developing countries. It sponsored investment missions comprised of some 110 company officials to Honduras, the Dominican Republic, Guinea, Sri Lanka, and Kenya.

OPIC sponsored or participated in seminars to encourage and assist potential investors in twelve principal cities of the United States. In addition, OPIC maintained its financial support of the training conducted by the UN Industrial Development Organization (UNIDO), an intensive one-year program for high level government officials of developing countries in how to attract foreign investment to their respective countries. OPIC has also responded to a request from several governments for technical assistance in developing investment promotion programs and has provided counsel on improving foreign investment policies and incentives.

OPIC's Trade Effects

OPIC's projects by their very nature generally result in increased US exports due to initial purchase of US-made machinery and materials and ongoing procurement during the lives of the projects. In addition, OPIC has instituted special programs which impact directly on US exports. The insurance coverage offered for standby letters of credit for US contractors enables them to meet foreign competition and bid more effectively on large scale projects which, if awarded, will likely use US equipment and materials. An expanded version of this coverage offers insurance to US exporters. In both its insurance and finance programs, OPIC now offers assistance for foreign distributorships of US-made equipment in order to promote the installation of service and sales facilities abroad.

Future Emphasis

OPIC will endeavor to expand its assistance under its special minerals and energy program. It offers highly flexible and innovative coverage to US investors prepared to undertake investment in mineral exploration and exploitation

and in oil and gas exploration, development, and production under terms and conditions tailored to the special needs and concerns of investors in these kinds of projects. Last fiscal year OPIC provided insurance coverage on US investments in mineral and energy projects amounting to $612 million and issued a total of $110 milion in loan guaranties.

The recently developed letter of credit guaranty insurance program has been highly successful. OPIC intends in FY 1981 to further improve its insurance coverage in this area. This program provides protection to construction contractors against losses due to the arbitrary drawing down of a letter of credit posted as a bid, performance, or advance payment guaranty. In FY 1980, OPIC wrote some $33 million of such insurance coverage for 19 contractors.

IV.F. THE TRADE AND DEVELOPMENT PROGRAM

The purpose of the Trade and Development Program (TDP), a component of IDCA, is to facilitate economic development, primarily in middle and upper-income developing countries, and to promote export sales of US goods and services including high technology. TDP programs speed development in participating countries, respond to technological needs, and improve the position of LDCs as trading partners with the United States.

The Trade and Development Program (TDP) provides for the transfer to developing countries of US technological goods and services from both private and public sectors. By grant-financing planning services (including pre-feasibility and feasibility studies) and providing goods and services on a reimbursable basis to middle- and upper-income countries with capacity to pay, TDP is an important component of the US foreign economic strategy. It is directed largely toward those countries not participating or no longer included in regular AID programs, but with whom the US wishes to maintain a cooperative development and trade relationship. These countries may include AID-graduates, OPEC members, or any friendly country which desires to obtain US technology.

Through TDP, US agencies or firms participate in the early planning of development projects with the expectation that US goods and services will be used in implementation. To the extent that these expectations are realized, TDP improves the international competitive position of US private firms while at the same time furnishing vitally needed technology to developing countries.

TDP also serves as the coordinating and authorizing agency for the provision of government-to-government technical assistance on a reimbursable basis, involving many US agencies. In 1980 participating agencies included the Army Corps of Engineers, the Bureau of the Census, Water and Power Resources Service of the Department of the Interior, the Department of Energy and the US Department of Agriculture.

The functions of the Trade and Development Program were formerly carried out by the Reimbursable Development Program (RDP) in AID. In 1980, TDP was established as a component agency of IDCA, given operational autonomy, and plans were made for for gradual year to year increases in the level of program funding. The change was made to enhance TDPs impact on the US balance of payments, middle-income country development, and technology transfers.

Examples of projects in progress at the end of 1980 included the following:

Nigeria: TDP is managing the technical training of 2,500 Nigerian students in US institutions.

Thailand: TDP sponsored feasibility studies and technical orientation for construction of a natural gas pipeline.

China: TDP sponsored the first US hydropower mission to the People's Republic of China and is working with the PRC on a specific hydropower project.

Zimbabwe: TDP is working with the Government of Zimbabwe to establish an ammonia/synfuels production capacity using coal.

Brazil: TDP-sponsored feasibility studies of coal use and solar energy have provided major opportunities for advanced technology to solve critical energy problems.

Saudi Arabia: TDP-authorized reimbursable services, managed by the Department of the Treasury, have involved major infrastructure development by United States firms and agencies.

Uruguay: A TDP-sponsored feasibility study of ethanol production is laying the framework for creative use of agricultural and distillation technology.

Peru: US engineers sponsored by TDP are assisting in the development and renovation of four port facilities related to Peru's mineral industry.

Venezuela: The United States is providing the city of Maracaibo solid waste disposal and recycling machinery, following a TDP feasibility study for the Municipal Council of Maracaibo.

These projects have or will involve procurement from US sources of, at a minimum, 50 to 100 times the TDP expenditure. The Venezuelan project, for example, involved a $30,000 TDP expenditure which resulted in over $30 million worth of US exports. Similarly, the Thailand project involved a $225,000 TDP expenditure which resulted in $17 million worth of US sales.

These illustrative projects also address significant development problems (such as unemployment, need for energy, food shortages, lack of skills) and transfer needed technology.