Development Issues

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

The 1980 Annual Report of the Chairman of the Development Coordination Committee.

UNITED STATES

INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

Washington, D.C. 20523

March 15, 1980

To the Congress of the United States

I hereby transmit to the Congress the Annual Report on Development Coordination for 1979, in accordance with Section 634(a)(1) of the Foreign Assistance Act of 1961, revised by the International Development and Food Assistance Act of 1978.

THOMAS EHRLICH
Chairman

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GLOSSARY OF ACRONYMS

ADB	Asian Development Bank
ADF	Asian Development Fund
AfDF	African Development Bank
AfDF	African Development Fund
AID	United States Agency for International Development
ATI	Appropriate Technology International
CARE	Cooperative For American Relief Everywhere
CEQ	Council on Environmental Quality
CERDS	Charter of Economic Rights and Duties of States
CFF	Compensatory Financing Facility of the International Monetary Fund
CGIAR	Consultative Group for International Agricultural Research
CIEC	Conference on International Economic Cooperation
COW	United Nations General Assembly, Committee on the Whole
DAC	Development Assistance Committee of the Organization for Economic Cooperation and Development
DC	Developed Country
DCC	Development Coordination Committee
DOE	United States Department of Energy
ECOSOC	Economic and Social Council, United Nations
EEC	European Economic Community
EPA	United States Environmental Protection Agency
ESCAP	Economic and Social Commisssion for Asia and the Pacific, United Nations
EST	Economic Support Fund
FAC	Food Aid Convention
FAO	Food and Agricultural Organization, United Nations
FSO	Fund for Special Operations, the Inter American Development Bank
FY	Fiscal Year
GATT	General Agreement of Tariffs and Trade

GDP	Gross Domestic Product
GNP	Gross Nationial Product
GSP	General System of Preferences
G-77	Group of 77, consortium of developing countries in United Nations system
HEW	U.S. Department of Health, Education and Welfare
IAEA	International Atomic Energy Agency, UN
IBRD	International Bank for Reconstruction and Development, also known as the World Bank
ICA	International Coffee Agreement
IDA	International Development Assistance
IDB	Inter-American Development Bank
IDCA	International Development Cooperation Agency
IDS	International Development Strategy
IEA	International Energy Agency
IEDP	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
IPC	Integrated Program on Commodities
ISA	International Sugar Agreement
ISTC	Institute for Scientific and Technological Cooperation
ITC	International Tin Convention
IWC	International Wheat Convention
IWY	International Women's Year
LDCs	Less Developed Countries
LLDCs	Least Developed Countries
MDBs	Multilateral Development Banks
MFN	Most Favored Nation
MIC	Middle Income Country
MTN	Multilateral Trade Negotiations
NIEO	New International Economic Order
OAS	Organization of American States
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development

OPEC	Organization of Petroleum Exporting Countries
OPIC	Overseas Private Investment Corporation
PHC	Primary Health Care
PVOs	Private Voluntary Organizations
RTA	Retroactive Terms Adjustment
SDRs	Special Drawing Rights
SFF	Supplementary Financing Facility
TNC	Transnational Corporation
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNCSTD	United Nations Conference on Science and Technology for Development
UNDP	United Nations Development Program
UNEP	United Nations Environment Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Fund for Population Assistance
UNGA	United Nations General Assembly
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNITAR	United Nations Institute for Training and Research
USDA	United States Department of Agriculture
WFC	World Food Conference
WFP	World Food Program
WHO	World Health Organization
WID	Women in Development Program, AID
WIPO	World Intellectual Property Organization
WMO	World Meteorological Organization
WTC	Wheat Trade Convention

I. INTRODUCTION

1979 brought home with unnerving clarity the fact that the fragility of developing countries, whether in the Caribbean, Africa or South Asia makes them susceptible to political upheavals that directly affect vital interests of the United States of America. 1979 was also the year in which the Carter Administration reorganized its development assistance efforts to provide the United States Government with more efficient and effective administrative machinery to prepare it for the tasks of the 1980s. On October 1, the International Development Cooperative Agency was established.

The reorganization and the events throughout the world have forced us to reexamine carefully the links between our efforts to assure peace, our own freedom and the development of those countries less fortunate than we.

1. THE U.S. STAKE IN ASSISTING DEVELOPMENT

Every year a multitude of documents stress the importance of the developing countries to the United States. Assisting their development is generally related to economic, political, strategic and humanitarian reasons. The reasons were spelled out in some detail in the Congressional Presentation, Fiscal Year 1981, submitted by IDCA (February 1980). Little purpose is served in repeating those arguments and explanations. Instead what follows here is an attempt to step back from those reasons and to try to see them as part of a coherent effort to achieve an overriding goal.

President Carter, in his State of the Union address, proclaimed that "peace, a peace that preserves freedom, remains American's first goal."

We seek then a world at peace in which nations respect each others' national independence. In which each nation expands the participation of its people in its political process. In which each nation respects the human rights of its citizens. In which nations strive to meet the economic aspirations of their people equitably. That is a world in which our own people and insitutions can flourish.

We have learned that dictatorships which consistently fail to meet the economic and political aspirations of their people increase the risk of war. Frustrated and enraged people, mired in poverty and oppressed by the few, often breed terror, revolutions and chaos. They do not produce nations that can resist subversion. Nor can such nations strengthen their national independence. They are prey to destabilizing influences from within and without. Their situation creates temptations for their neighbors and for more distant major powers. Often these are the temptations that threaten the peace we seek.

In the past it has been argued that development is destabilizing. This is true. Pressures to redistribute economic and political power will often upset a society. But in today's world this discussion is only theoretical. There is no nation in which "the winds of change" are not already blowing. The strains caused by development are modest compared to those caused by the degradation and humiliation of poverty, frustrated aspirations and repression. Rapid equitable growth, with its bustling and jostling for political and economic advantage, and its creation of new opportunities, will certainly remake a society. But such change will not threaten peace and international stability in the way that rage from injustice and hunger can.

It is no longer a question of whether change from development should occur, but whether institutions will be able to channel such hectic change in constructive directions. Independent, democratic, economically advanced nations are our best hope for a world in which our own institutions can flourish. The existence and survival of such nations is not a certainty. With them the probability of peace with freedom and security for our own people is high. Without them, we will look forward to a world of terrorism and civil strife, occasionally leading to war and big power confrontation. There can be no peace in a world mired in poverty, and kept stable by persecution.

What must be done and how it is to be done are not mysteries. These subjects have been studied extensively for the last 20 years. Patience, hard work and resources are the initial ingredients. They can only be provided in adequate amount if the political will of the developed and the developing countries is there. John Lewis, Chairman of the Development Assistance Committee of the OECD has recently set forth his views on what needs to be done. His persuasive statement is included as Appendix A to this document.

Though this report, by statute, is designed to deal primarily with events of the past year, we note that it was in truth the end of a decade. The 70s in some measures were a reaction to the experience and disillusionment of the 60s. Certainly we must look back for our experience and learning, but not for the anguish and frustration. We stand now on the threshold of a new decade. The problems are many. Some of the solutions are known. There are no shortcuts, no panaceas. With less dedication and fewer resources, there will be more poverty. High inflation rates and low growth rates, accompanied by increasing prices for petroleum, assure it, unless sound domestic and international efforts are made.

For tne 80s, U.S. leadership in the world requires us to demonstrate our understanding that those who fight for peace are required to fight to overcome poverty.

If peace - a peace with freedom - is our all embracing goal, the furtherance of democratic institutions and the protection of human rights on the one hand, and growth with equity on the other, describe means by which we hooe to achieve this peace.

Last year in Chapter II of the Development Issues, we dealt at length with both human rights and basic human needs, and their links. Accordingly, this year it is enough to simply restate our continuing commitment. This Administration from the outset has remained unalterably dedicated to these objectives.

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

In his recent State of the Union address, President Carter said, "We will continue to support the growth of democracy and the protection of human rights....In repressive regimes, popular frustrations often have no outlet except through violence. But when peoples and their governments can approach their problems together - through open, democratic methods - the basis for stability and peace is far more solid and far more enduring. That is why our support for human rights in other countries is in our own national interest as well as part of our own national character."

The relationship between our concern for human rights policy and growth with equity was also spelled out by President Carter in a speech to the Indian Parliment in January 1978, in which he said, "human needs are inseparable from human rights and while civil and political liberties are good in themselves, they are much more useful and meaningful in the lives of people to whom physical survival is not a matter of daily anxiety. To have sufficent food, to live and work, to be adequately clothed, to live in a healthy environment, and to be healed when sick, to learn and be taught -- these rights too, must be the concern of government. To meet these needs, orderly economic growth is critical. And if the benefits of growth are to reach those whose needs is greatest, social justice is critical as well."

This represents the culmination of the Administration's evolving development assistance policy. Human rights and human needs, interacting and mutually reinforcing, form the foundation of the U.S. development assistance effort.

2. THE INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

On October 1, 1979, a far-reaching reorganization of the United States development assistance efforts took place. The reorganization was designed, in President Carter's words, to "provide the United States with governmental machinery far better able to fulfill our commitments to assist people in developing countries to eliminate hunger, poverty, illness and ignorance."

This reorganization was the culmination of the process that was begun early in the Carter administration and was encouraged by Senator Humphrey's bill to reorganize the foreign assistance program. 1978 Development Issues pointed out that President Carter had begun moving to improve both the formulation of the development assistance policy and the coordination of our respective programs early in his term. The reorganization is a direct outgrowth of steps taken by the President in the spring of 1978 to strengthen the Development Coordination Committee and to improve the efficiency and effectiveness of United States efforts. Based on our experience, and a thorough review of the organizational options available, the President submitted to Congress Reorganization Plan #2 for the creation of this new agency.

The International Development Cooperation Agency is to be a focal point within the U.S. Government for development matters affecting U.S. relations with developing countries. It is important that at the highest levels in the U.S. Government there is an adequate voice to raise issues concerning the effect of our actions on the development of the Third World countries.

The Director of IDCA serves as the principal international development advisor to the President and to the Secretary of State, subject, of course, to guidance concerning U.S. foreign policy from the Secretary of State.

The main missions of the new agency are two: first, to assure that development goals are taken fully into account in all Executive Branch decision-making on such matters as trade, financial and monetary affairs, technology, and migration; and second, to provide strong direction for U.S. policies toward the developing world through the formulation of coherent development strategies and the coordination of bilateral development assistance programs with U.S. participation in the broad range of multilateral organizations.

'o carry out these responsibilities, the IDCA Director is supported by a small professional staff. Individuals on this staff come to IDCA with working experience within the Executive Branch, multilateral institutions, and the private sector.

The IDCA Director has a wide range of authorities to assist in the pursuit of these objectives. The Agency for International Development (AID) is a component of IDCA and its Administrator reports to the IDCA Director. The Overseas Private Investment Corporation (OPIC) is also a component of IDCA, and the IDCA Director serves as the Chairman of the Board of Directors of the Corporation. IDCA has responsibility for budget support and policy for U.S. participation in United Nations (UN) and Organization of American States (OAS) programs whose purpose is primarily developmental. These include, for example, the U.N. Development Program (UNDP), the U.N. Children's Fund (UNICEF), and the OAS technical assistance funds. The new Institute for Scientific and Technological Cooperation (ISTC) as proposed by the President would form a separate component of IDCA, and its research would complement the operating activities of AID.

U.S. participation in the multilateral development banks (MDBs) -- the World Bank Group and the regional development banks -- is a shared responsibility of the Director of IDCA and the Secretary of Treasury, who will continue to instruct U.S. representatives to the MDBs. The Director of IDCA is consulted by the Secretary of Treasury in the selection of the U.S. Executive Directors of the multilateral banks. The Director of IDCA advises the Secretary and the U.S. representative on development programs and policies, and on each development project of the multilateral banks. Such advice is normally determinative, except in such cases as the Secretary of the Treasury finds that compelling financial or other nondevelopmental reasons (in other words legislative requirements) require a different U.S. position. Differences between the Director and the Secretary may be submitted to the President for resolution.

The Director of IDCA is the governor of the International Fund for Agricultural Development and instructs the U.S. Executive Director to IFAD Board of Directors.

The direction of the U.S. Food for Peace Program (PL-480) is a shared responsibility of IDCA and the Department of Agriculture. IDCA is mandated to play an important role in the implementation of the U.S. Economic Support Fund, and a number of other development-related activities and programs.

In its first several months of operation, IDCA has naturally devoted considerable attention to its own organization and staffing. Its mission is policy planning, policy making and policy coordination, as distinct from the execution and operation of U.S. programs.

Designing a U.S. development strategy that makes maximum use of the various bilateral and multilateral development assistance mechanisms and takes account of a wide range of other U.S. policies (e.g., trade) is a complex matter.

Since there has been a history of independence for many of these programs and policies, coordination is, in many respects, a prerequisite to policy advancement. The IDCA Director uses several procedures to coordinate and advance U.S. development policy. Among the most important are:

First, sectoral analysis and strategy formulation. IDCA has identified several sectors that deserve immediate and priority attention: agriculture, energy, health/population and, science and technology. In each of these sectors, a major effort is underway to establish comprehensive goals and strategies for the field.

Second, budgetary review and priority ranking. Among the most important responsibilities of the IDCA Director is preparing a comprehensive development budget for the President. This budgetary review involves a careful analysis of the needs of each of the development programs, and requires the Director to rank all the elements to ensure the most effective use of scarce development resouces.

Third, country analysis and strategy formulation. Complementing the formulation of sectoral strategies, the IDCA staff has also begun the process of comprehensively reviewing the development needs of key aid recipient countries. These reviews take into account the activities of a variety of aid donors, as well as the development plans of the recipient country involved.

Fourth, the development policy statement. Annually, the Director of IDCA prepares a Development Policy Statement for the President's review. This statement outlines U.S. international economic development priorities and agenda for the coming year. The 1980 Development Policy Statement was prepared for, and submitted to, the President in January 1980. This statement is included as Appendix B of this report.

Fifth, inter-agency bodies. The Director of IDCA, and senior Agency staff, chair and participate in a wide range of inter-agency committees. The Director chairs the Development Coordination Committee, a broad inter-agency body that coordinates development and development-related policies and programs. The Director is a member of the National Advisory Council on International Monetary and Financial Policies, the Trade Policy Committee, and the Advisory Committee on Agricultural Assistance.

The Chairmanship of the National Security Council's Policy Review Committee rests with the IDCA Director when that Committee takes up development issues.

Sixth, the Annual Report on Development Coordination As Chairman of the Development Coordination Committee, the IDCA Director annually prepares and submits to the Congress a report on development coordination. This report, Development Issues, reviews the efforts undertaken by the U.S. Government in the past year to promote international economic development, and discusses key issues facing policymakers in the development field.

Each of the above procedures represent an effort to gauge the value and effectiveness of all of our development assistance programs.

As the United States enters the decade of the 1980s and economic relations with the developing nations assume a more important role for all Americans, the need for this type of comprehensive approach to development increases. Through a sound and comprehensive development strategy, and coordinated development assistance programs, the United States will further strengthen its vital relations with the developing world.

3. DEVELOPMENT POLICY PRIORITIES.

In this report, we have described the development assistance efforts of the U.S. Government in 1979. This description is by institutions and by sector. We have also taken the liberty of dealing with certain issues of special priority for the years ahead.

To avoid increased world hunger special new efforts must be made.

The modest development goals of the Third World must not be substantially undermined by escalating petroleum prices. New sources must be developed and financial recycling must be facilitated.

The developing countries must be assisted to increase their earnings of vital foreign exchange and the more advanced countries must be discouraged from restricting imports as a means of coping with their domestic economic slowdowns.

To make certain that our efforts are not wasted, population and family planning programs must be strongly encouraged and supported. Moreover, if efforts to assist women to obtain a more equal role in society and development are to succeed, women must have the opportunity to control their own childbearing.

Additionally, our own efforts to assist women must be reflected to an increased extent in actual operations. Programs and projects must be designed with a clear understanding of the target groups. Amongst the poorest are a large number of women. They must be the recipients, not merely of good words and social services, but of economic opportunity. Their economic role in developing countries is substantial. It must be protected and encouraged.

The U.S. Government will continue to emphasize the role of the multilateral development banks in assisting the middle-income countries, while, to the extent practicable, using the most concessional funds for the poorest countries.

We will continue to stress the need for assistance programs and development plans to focus explicitly and flexibily on dealing with the improvement of the position of the very poor in all developing countries.

These, then, are the subjects of the chapters to follow. They describe both our past actions and our intentions.

II. Developing Countries in the World Economy

II. A. ECONOMIC PROSPECTS FOR DEVELOPING COUNTRIES IN EARLY 1980s

Developing countries enter the 1980s under economic conditions that will make it difficult for them to maintain the pace of economic growth achieved during the 1970s. Over the course of the last decade, the non-oil-exporting LDCs as a group experienced growth in economic output averaging somewhat over 5% per year in the 1970s. This falls below the 6% target set for all LDCs at the beginning of the decade, and reflects, in particular, a gradual slowdown in growth that occurred throughout the world in the second half of the seventies. In 1980, a GNP growth rate of less than 5% for the non-oil exporting LDCs is probable. The less than satisfactory prospects for the LDCs in 1980 reflect the direct impact which the enormous oil price increase is having on import bills, and the indirect effect of both higher costs for other imports and slower growth in demand for LDC exports affected by slowed growth in developed countries.

The most recent OECD projections anticipate that the growth rate of OECD countries will drop to 1% in 1980 from about 2.4% in 1979. This continued slowdown will adversely affect the demand for LDC exports, especially if combined with new protectionist measures.

In addition, inflation has become a particularly troublesome problem since the mid-1970s for both developing and developed countries -- the direct and indirect impact of the oil price increases being a significant factor. For the non-oil-exporting LDCs, the weighted average inflation rate reached 50% in 1976, compared to rates typically between 15 and 20% during the two previous decades. Although these rates have declined to between 30 and 35 percent during the last two years, the latest round of oil price increases could push the combined inflation figure to 40% in 1980. Such rapid inflation tends to create distortions throughout the economy which adversely affect savings and investment decisions and generate uncertainty in decision making.

Hidden by the aggregate growth rate figures are a variety of experiences in the developing world. At one end of the spectrum are the poor and populous countries of South Asia and the least developed countries of Africa --some more than 40 countries with a total population of over 1 billion people. Most of these countries have extremely low per capita incomes and, particularly in Africa, they continue to experience slow if not stagnating rates of economic growth.

In many of these countries, the basic economic and institutional infrastructure is little developed. Growth depends primarily on the agricultural sector, but growth in agricultural productivity is expected to remain low. At the same time, what growth is achieved is often more than offset by high rates of population growth. As a result, many of the poorest countries are more heavily dependent on food imports today than they were 10-15 years ago.

For these low-income countries access to sources of external financing is almost completely limited to official development assistance on concessional terms. They can little afford to borrow from the private capital markets nor do their economies offer much that attracts private direct investment (except where there are fuel or mineral resources). It is of serious concern to them, therefore, that the flow of concessional assistance did not show major increases in the 1970s.

At the other end of the development spectrum are the middle-income countries, which have experienced as a group average GNP growth of over 6% and GNP per capita growth of about 3% over the 1970s. In the decade of the 1980s, these countries can be expected to achieve at least moderate standards of living and significant advances in industrial development.

Their economies are now among the most dynamic in the world. Their exports were growing at unprecedently high rates. And they have gained much improved access to the vast resources of the private capital markets. In marked contrast to today's low-income countries, about four-fifths of the external financing of all middle income countries are now met by loans at market terms, with private sources accounting for over 85% of this lending. Yet, most of these middle-income countries face problems of mass poverty and imbalances in the degree of development that has occurred in their economies. As a result, they must now deal with massive problems of rapid and highly concentrated urbanization, the need to expand urban public services quickly, and the need to strengthen economic links between urban industrial growth and rural/agricultural development.

Many of the middle income countries are most vulnerable to the external shocks which threaten to restrict LDC growth in the 1980s. They are more vulnerable than many low-income LDCs to the impact of recession in the OECD countries because of their need to earn foreign exchange to cover imports and service debt. And they are particularly vulnerable to the oil price hikes because they rely more on energy-using industrial production and hence energy represents a larger share of their total imports. Because of this vulnerability, combined GNP growth in the middle-income LDCs might well fall to around 5% in 1980; however, this will depend on the way in which each individually handles the trade-off among increased debt, inflation, and economic growth.

In the rapidly changing economic conditions of the 1970s, private banks played a major role in financing LDC current account deficits. Most of this lending was concentrated in middle income LDCs. It is uncertain to what extent the expansion of private lending to the more advanced developing countries will be a continuing phenomenon. Many knowledgeable observers argue that continued growth in bank lending to LDCs may not be sustained at the rates recorded in the late 1970s.

These economic conditions, discussed in more detail in the following sections of this report, form the broad context within which sound development strategies must be forged and the context within which the "dialogue" between developed and developing countries occurs.

II.B INTERNATIONAL TRADE

1. INTRODUCTION

The contribution of international trade to the economic development of LDCs is well documented and widely appreciated. Production of exports can provide increased employment, income and foreign exchange. The need to generate foreign exchange is particularly acute during the current period of sharply rising import prices. Developing countries rely largely on export growth to finance the fuel and capital goods imports that are required for their development efforts. To some extent and for some countries, borrowing on non-concessional terms and/or direct foreign investment inflows have provided the additional resources to cope with the higher import bills; but even those LDCs currently able to attract significant foreign private financing must demonstrate their continued credit-worthiness in large part by improving their export performance. For poorer LDCs, foreign exchange earned through trade dwarfs the flow of concessional resource transfers. Moreover, during the 1970s, foreign exchange earned through trade with the developed countries has grown nearly 30% faster than net disbursements of Official Development Assistance.

As the composition of LDC exports has changed in the direction of more manufactures and additional processing of exportable raw materials, the employment benefits from trade have been enhanced. Indeed, several of the most impressive gains in employment and income growth in the Third World have occurred in countries which have pursued trade-oriented development strategies. These benefits are not attributable only to export trade. Imports provide a degree of the necessary competition to direct LDC industrialization along an efficient path, both in terms of the output mix and technological choice.

2. RECENT TRADE PATTERNS

The growth of world trade, which averaged better than 20% per year between 1970 and 1977, proceeded at a slower pace (16%) during 1978 (See Table 1). Much of that expansion was a reflection of inflation and the dramatic oil price increases, but the growth in export volume was also susbstantial, amounting to an average annual rate of approximately 6%. The fastest growing market for world exports in 1978 was in the non-OPEC developing countries, and the developed countries were the major beneficiaries of this dynamism. Developed country exports to non-OPEC LDCs increased by 24% in 1978. Third World markets also have been tapped successfully by the developing countries themselves; non-OPEC LDCs' exports to each other grew by 21% in 1978, compared to overall LDC export growth of less than 14%.

Export performance by the LDCs during the 1970s has been close to the world average, but the 1978 export slowdown was sharper for developing countries than for the world as a whole. Industrialized countries remain the major market for the LDCs' products, accounting for more than two-thirds of LDCs' foreign sales. Given the dominance of developed countries in the LDC export picture, export growth rates of LDCs will not return to historical levels unless economic growth and market access are maintained in the developed world. The prospects for the immediate future are, however, for slower economic growth, and a growing clamor for protectionist measures in the developed countries.

TABLE 1

PATTERNS OF WORLD EXPORTS

	Exports (f.o.b.,$Billions) 1970	1978	Average Annual Export Growth Rate (%) 1970-78	1977-78
World Exports	282.2	1,190.4	19.7	16.3
To Developed Countries	222.1	873.0	18.7	15.8
To OPEC	9.3	95.8	33.8	17.5
To non-OPEC LDCs	44.6	189.9	19.9	18.8
Developed Countries' Exports to World	226.9	890.5	18.6	20.1
To Developed Countries	174.9	628.3	17.3	19.6
To OPEC	7.8	81.6	34.1	20.0
To non-OPEC LDCs	32.9	123.6	18.0	24.1
OPEC Exports to World	17.7	143.4	29.9	- .3
To Developed Countries	14.0	111.2	29.6	- .3
To OPEC	.1	1.2	36.4	-29.4
To non-OPEC LDCs	3.2	30.1	32.3	- .3
Non-OPEC LDC Exports To World	36.5	149.6	19.3	13.6
To Developed Countries	26.2	101.3	18.4	12.2
To OPEC	.9	10.3	35.6	13.2
To non-OPEC LDCs	6.5	29.4	20.8	21.0

SOURCE: IMF, Direction of Trade

The composition of trade between developed and developing countries reflects their respective comparative advantages (Table 2).

TABLE 2

COMPOSITION OF TRADE BETWEEN DEVELOPED COUNTRIES AND LDCs 1/ - 1977

	LDC EXPORTS to Developed Countries (f.o.b.,	LDC IMPORTS from Developed Countries $Billion)	Balance ($Billion)
Food, Beverages, Tobacco	28.6	14.9	13.7
Crude Materials, excluding Fuels	16.6	7.1	9.5
Textile Fibers	2.3	2.0	.3
Crude Fertilizers, and Minerals	1.0	.6	.4
Metalliferrous Ores, Scrap	4.7	.5	4.2
Mineral Fuels	124.2	2.6	121.6
Chemicals	2.0	16.1	- 14.1
Machinery, Transport Equip	6.4	83.7	- 77.3
Other Manufactures	26.7	43.7	- 17.0
Iron and Steel	.9	10.1	- 9.2
Non-Ferrous Metals	4.3	.2	- 4.1
Yarn and Fabrics	3.2	5.3	- 2.1
Clothing	7.5	1.3	6.2
Commodities not Classified	.6	4.8	- 4.2
Total	205.1	172.9	32.2

1/ Includes OPEC

SOURCE: U.N. Monthly Bulletion of Statistics

The developing countries purchase 86% of their imported manufactures from the developed world and are particularly heavy net importers of machinery, transportation equipment, chemicals, and iron and steel. They are net exporters to the developed countries of agricultural products, fuel, and other raw materials, and some labor-intensive manufactured goods. While several of the advanced developing countries have achieved dramatic increases in their exports of manufactures to developed countries in the past several years, all LDCs combined still account for less than 10% of world exports of manufactures.

Approximately 25% of U.S. exports and 23% of U.S. imports are attributable to the non-OPEC LDCs. Our exports to this group of countries expanded by 25% in 1978, a substantially better performance than U.S. exports to other industrialized countries or to OPEC. This marked an improvement in the U.S. relative position in world export markets. The U.S. share of developed country exports to the Third World including OPEC had fallen from 30% in 1974 to less than 26% in 1977; in 1978 the U.S. share rose to 27%. The improvement, which was due in large part to the depreciation of the dollar in 1977-78, is evident in the balance of trade figures. The U.S. trade deficit with OPEC and the non-OPEC LDCs declined during 1978. A further narrowing of the deficit vis-a-vis the non-oil exporters occurred in 1979, though the deficit with OPEC nearly doubled.

3. ROLE OF TRADE IN DEVELOPMENT

The aggregate data on Third World trade performance conceals sharp differences in trade performance among countries. Different economic structures and development policies result in different problems and challenges in the trade sphere for LDCs at differing levels of development. Accordingly, there is a difference in what they can expect to achieve from the international trade system generally, and from their trade relations with the developed countries in particular.

The more advanced LDCs which have adopted outward-looking trade strategies 1/ are most interested in maintaining and expanding their access to developed country markets, especially for manufactured goods. They are the most enthusiastic proponents of positive trade adjustment by the developed countries because they anticipate that the emerging patterns of comparative advantage will bring them into increasing competition with several of the relatively low-productivity manufacturing industries of the developed countries. They are skeptical, however, of the developed countries' statements about adjusting to market-determined changes in comparative advantage. The Multifiber Agreement limiting imports of textiles and apparels, U.S. Orderly Marketing Arrangements for footwear and television receivers, and the European Community's insistence upon GATT provisions for selective safeguards are perceived as inconsistent with developed countries' pronouncements of support for positive adjustment and as harbingers of developed country resistence to a growing role for LDCS in world trade of manufactures.

The low-income nations in the Third World generally have export sectors that are dominated by one or two primary commodities. In developing Africa, for example, primary commodities account for more than 80% of the region's total exports, and these countries, as a rule, depend on a single commodity for more than half of their export earnings (e.g., coffee accounts for 94% of Burundi's export earnings). Given this trade structure, these countries are concerned primarily with protecting their economies from drastic fluctuations in export earnings.

1/ The typical elements of an outward-looking strategy are: free trade in industrial inputs, a unified exchange rate that avoids an overvalued domestic currency, control of inflation, encouragement of investment and maintenance of a wage rate that reflects accurately the supply and demand conditions in the labor market.

Accordingly, international measures to stabilize primary commodity prices or to compensate for export earnings shortfalls are of great importance to these low-income LDCs. The objective of trade diversification is an important objective in the medium-and long-term; and developed country assistance in meeting this objective should include active financial and technical assistance to promote trade activities and export-oriented private investment, as well as cooperation by maintaining open markets. The current exportables of the poorest LDCs generally face fewer trade barriers in developed countries than do the products of the more advanced LDCs. Only 34% of exports from low-income LDCs (1977 per capita income of $295 or less) to the U.S. are dutiable, compared to nearly 60% for LDCs with 1977 per capita income exceeding $1,250. However, as the low-income countries succeed in providing exports at higher levels of processing and fabrication, they will encounter higher levels of effective protection in the developed countries.

Many of the developing countries' trade sectors fall somewhere in between the two situations portrayed above. This middle group includes many countries that have begun to diversify their exports, but are still heavily dependent upon a few primary commodities (e.g., Philippines, Malaysia, Colombia). Some have moved cautiously in the direction of more outward-looking trade strategies, but their weak balance of payments positions make them hesitant to pursue rapid and thorough trade liberalization. These countries feel very keenly the need for differential treatment in trade (e.g., tariff preferences), protection against deteriorating terms of trade, marketing assistance and the development of a capability for further processing of their exportable raw materials.

4. U.S. RESPONSE

(i) MULTILATERAL TRADE NEGOTIATIONS

The Multilateral Trade Negotiations (MTN) provide substantial benefits for the developing countries. The United States has negotiated bilateral tariff and non-tariff agreements with 28 developing countries. Once the MTN agreements are fully implemented, the average U.S. tariff rate on the current composition of imports from the LDCs will have fallen below 6% *ad valorem*. The industrial tariff offer covers more than $10 billion in shipments from developing countries, and will reduce by more than 25% the duties collected on U.S. imports from the LDCs. With the exception of certain textile, apparel and footwear products, the United States will implement its tariff cuts on certain products primarily supplied by the least developed countries immediately, instead of staging the implementation over the normal 8-year period.

The non-tariff measures codes agreed to in the MTN also provide important benefits for developing countries. The codes are designed to ensure a more open, transparent international trading system which will provide increased trading opportunities for all countries and be of special benefit to smaller, less experienced exporters. While code membership will create additional responsibilities for developed and developing countries, the benefits which result from a more open trading system will far exceed the obligations of code adherence. Certain developing countries have committed themselves to join the codes, and the developed countries will be continuing negotiations with developing countries which, it is hoped, will lead to broader LDC participation in the codes.

In recognition of the special development needs of LDCs, each of the codes contains certain measures providing differential treatment for developing countries. Agreement was also reached on an enabling clause, providing a firmer legal basis within the GATT for the extension of special and differential treatment to developing countries. In accepting this clause, developing countries also accepted the principle of graduation, which provides for the assumption by developing countries of increased obligations within the GATT as their economies progress. While the developing countries will derive real benefit from agreements reached in the context of the MTN, many of them have expressed some disappointment with the final outcome. From their point of view, the scope for differential treatment is not as great as many had sought. Benefits to developing countries of Most Favored Nation tariff cuts are sizeable, but certain items of importance to LDCs were excluded from the tariff cuts, or in the case of textile and apparel items remain subject to bilateral restraint agreements. Also, despite intensive negotiations no agreement has been reached on the issue of safeguards which is of central importance to developing countries. The United States and developing countries share the concern regarding the need for strict international discipline on safeguard actions, especially those taken on a selective basis. Negotiations, by definition, involve give and take. The fact that no country realized all its goals should not obscure the major achievements which were accomplished in the MTN. The agreements concluded in the MTN provide major opportunities for all countries to expand their future trade. These opportunities will become increasingly important to developing countries as their economies expand.

(ii) Trade Actions

As tariffs have been reduced progressively through successive GATT trade negotiating rounds, other trade actions have been invoked to protect domestic interests against injury by increased imports or against unfair trade practices (e.g., escape clause actions, antidumping fees, countervailing duties). The LDCs allege that these trade actions are being applied increasingly to the products of the developing countries and that the effect of the trade actions is to stymie the LDCs' effort to use trade as a vehicle for development. Recent U.S. trade actions toward LDCs have not seriously impeded the efforts of countries following export-oriented development strategies. During 1978 and the first three quarters of 1979, the United States took escape clause (safeguard) action against three products of which LDCs are major suppliers: CB transceivers, high carbon ferrochromium and clothespins. In addition, previously established (June 1977) Orderly Marketing Agreements with Taiwan and Korea on TV sets and non-rubber footwear remained in effect. During the same period, the President rejected recommendations by the International Trade Commission (ITC) for safeguard actions on the following LDC exportables: fishing tackle, bicycle tires and tubes, unwrought zinc and stainless steel flatwear. Thus, the United States has used GATT escape clause provisions relatively sparingly in its dealings with the developing countries.

The United States also has taken actions against dumping and export subsidies by LDCs. Findings of dumping were made in the cases of bicycle tires from Korea and polyvinyl chloride sheets and film from Taiwan; negative determinations of alleged dumping or a finding of no injury were made for bicycle tires from Taiwan, steel wire rope from Korea, and steel wire strand from India. Final affirmative findings of export subsidies were made during January 1978 -September 1979 for selected items of apparel and textiles from Pakistan, Argentina, Brazil and Uruguay, non-rubber footwear from Argentina, handbags from Colombia and Uruguay and leather wearing apparel from Uruguay. In these cases countervailing duties were imposed except where the country involved indicated that its subsidy would be eliminated.

Negative subsidy findings (or findings of no injury in the cases of duty-free goods) were made for apparel and textiles from several LDCs (Singapore, Thailand, Brazil, Mexico, Taiwan, Colombia, India, Korea, Malaysia, and the Philippines), oleoresins from India, bromine and diuron from Israel and leather wearing apparel from Argentina. Since anti-dumping duties and countervailing duties are imposed in response to violations of GATT rules by the exporting country, these trade actions are less susceptible to charges of protectionism than are escape clause actions. The pattern of U.S. implementation of the GATT provisions in these cases indicates a balanced approach that takes account of LDC trade interests, domestic producers' concerns and the objective of an open, market-oriented international trade system. Moreover, an important result of the MTN has been the adoption by the U.S. of an injury test in the administration of countervailing duties where the country involved has accepted the obligations of the code.

While the final decisions in trade action cases generally have been restrained and balanced, there is some danger that domestic interests may file trade action petitions in ways that inject substantial uncertainty into the trading environment. In the case of bicycle tires from Taiwan and Korea, for example, the same domestic producer filed petitions for safeguard action, antidumping action and countervailing duties. This placed the exporting LDCs in a situation of triple jeopardy that raised the cost and risk of selling in the U.S. market. Another situation with trade inhibiting overtones was the case of a union filing countervailing duty petitions against textiles from nearly every major textile exporting LDC.

As the developed countries continue a period of slow growth in real GNP, special efforts will be required to resist pressure for unjustified trade actions against imports. The OECD countries since 1974 have adopted an annual trade pledge to avoid unilateral measures to restrict imports or to stimulate exports artifically as a means of dealing with current account deficits. The pledge includes language on the special needs of the developing countries. It may be an appropriate time for developed countries to reaffirm this pledge to restrain protectionism and to support positive trade adjustment, and for the pledge to be affirmed by developing countries consistent with their development capabilities.

(iii) Generalized System of Preferences

The U.S. Generalized System of Preferences (GSP) was established in 1976 to encourage LDC export growth and diversification by providing duty-free entry into the U.S. market for approximately 2,800 LDC exports, subject to various limitations to protect the interests of domestic producers. The U.S. scheme, like those of other donors, covers largely manufacture products, with approximately three-fourths of the value of GSP-eligible imports falling within manufactured goods tariff classifications. In order for a developing country to derive major benefits from the U.S. scheme, it must already have or be readily able to acquire a productive capacity in the manufactures which predominate in the U.S. scheme. A literate, disciplined labor force, a fairly well-developed infrastructure and a modest industrial base are often prerequisites for using the trading opportunities provided by the U.S. GSP. In addition, the prospective exporting country must be following supportive export policies that allow the modest incentive provided by the tariff preference to be effectively utilized.

GSP duty-free imports by the U.S. amounted to $5.2 billion in 1978 (12.6% of U.S. imports from non-OPEC LDCs) and $6.3 billion during 1979. Average annual growth in GSP duty-free imports has exceeded 25%, compared to an average growth of all imports from beneficiary developing countries of 21.5% during 1976-78. However, for some of the reasons described above, the distribution of GSP benefits among developing countries has been uneven. In 1978, the top five beneficiaries (Taiwan, Korea, Hong Kong, Brazil, and Mexico) accounted for approximately 68% of U.S. GSP duty-free imports; and the top 10 beneficiaries (including, in addition to the five, Israel, Singapore, Yugoslavia, Argentina and India) accounted for 83%.

The competitive need provisions of the GSP are designed to ensure that benefits are reserved for developing countries which have not yet demonstrated international competitiveness. Under these provisions a beneficiary loses GSP duty-free treatment in an item if in a given year it accounts for more than 50% of total U.S. imports of that item, or its shipments of an item to the United States exceed a certain dollar limit ($41.9 million in 1979).

The competitive need exclusions have grown from $1.9 billion in 1976 to $3.2 billion in 1978. And the major beneficiaries of the GSP program also account for the largest share of the exclusions (in 1978 the five major beneficiaries accounted for 72% of all industrial GSP duty-free imports to the United States and 81% of all industrial competitive need exclusions).

While the U.S. GSP is designed to promote developing country trade, careful consideration is also given to U.S. domestic interests. During annual product reviews, interested parties can petition to have items added to or removed from the GSP product list. Articles are designated for GSP treatment only after receiving advice from the U.S. International Trade Commission and after public hearings are conducted by the Inter-Agency GSP Sub-Committee of the Trade Policy Staff Committee. The Administration will be submitting to Congress a full review of the overall operation of the GSP program covering its first five years.

(iv) Export Earnings Stabilization

For some of the developing countries, particularly the low-income LDCs, the principal trade concern in the immediate future is to cope with the price instability that characterizes some primary commodity markets. The high degree of export dependence upon such commodities makes these countries' development efforts extremely vulnerable to drastic price fluctuations. A sharp fall in price with no change in export volume can result in a serious foreign exchange shortfall, which can disrupt the flow of imported capital goods and industrial inputs that are necessary to further industrialization and to maintain full utilization of existing production capacity. On the other hand, a drastic price increase can generate export earnings in excess of what the country can absorb effectively in the short run.

The Compensatory Financing Facility (CFF) of the International Monetary Fund was established in 1963 to provide timely financing for members experiencing short-term balance of payments difficulties due to temporary export earnings shortfalls as a result of external factors beyond the individual member's control. The second liberalization of the CFF was completed in August 1979, and consisted of three major changes: (1) drawings outstanding may amount to 100% of a member's quota, compared to a pre-liberalization limit of 75% overall with a sub-limit of 50% in any 12-month period; (2) if in the opinion of the Fund adequate data on travel and workers' remittances are available, the member may stipulate that shortfall calculations include these non-merchandise sources of foreign exchange earnings; (3) shortfalls will be calculated with reference to a geometric average rather than an arithmetic average of the member's export earnings for the 5-year period centered on the shortfall year. These steps should be especially useful at a time when slower growth in the world economy could lead to increased export earnings shortfalls and greater balance of payments problems which would disrupt development efforts.

(v) Commodity Agreements

The adverse effects of commodity instability on the export earnings of some LDCs can be ameliorated by international commodity agreements (ICAs) to stabilize commodity prices within a price range that is fair to consumers and remunerative to producers. In recent years, negotiations of such arrangements have been conducted under the auspices of UNCTAD's Integrated Program for Commodities (IPC). During 1979 agreement was reached on an International Natural Rubber Agreement, which will establish an international buffer stock of 550,000 metric tons for the purpose of stabilizing natural rubber prices without disturbing long-term market trends. Financing of the buffer stock will be shared equally between importing and exporting members. The Agreement also includes several provisions to encourage the timely expansion of natural rubber supplies. The five-year agreement is expected to enter into force after October 1, 1980. The treaty will be submitted for congressional approval in 1980.

In recent years, only petroleum, coffee and copper have been more important than sugar as a source of foreign exchange for developing countries, more than 60 of which are sugar exporters. In November, the Senate voted 80-11 to ratify the International Sugar Agreement (ISA). The sugar pact relies upon coordinated sugar stockpiles and export quotas to maintain world sugar prices between 11 cents and 21 cents per pound. The stockpiles are to be financed from fees levied on internationally traded sugar. U.S. participation in the financial aspects of the ISA is awaiting the passage of separate implementing legislation. Tin is also an important commodity export for several developing countries, including Bolivia, Malaysia, Thailand and Indonesia. To improve the effectiveness of the International Tin Agreement, Congress authorized in December, a U.S. contribution to the Agreement's buffer stock of up to 5,000 long tons of tin.

The Common Fund has been a central element in UNCTAD's approach to LDC commodity trade problems. In March 1979 a Framework Agreement was reached covering the main elements of a Common Fund. The First Window of the Fund would have direct contributions of $400 million, and would facilitate the financing of international buffer stocks within the framework of independently negotiated and operated international commodity agreements. The Second Window would finance "other measures" undertaken by international commodity bodies to improve commodity markets through research and development, productivity improvement and market promotion. An Interim Committee of the Common Fund Negotiating Conference has been meeting since September 1979 for the purpose of producing the Common Fund's Articles of Agreement. The United States intends to join the Common Fund but has indicated that it will not be able to make a contribution to the Second Window in the foreseeable future.

II.C. INTERNATIONAL FINANCE

1. INTRODUCTION

The four-fold increase in international energy prices in 1973/74, and the recession in the industrial countries which followed in 1975, imposed severe strains on the current account position 1/ and financing requirements of the non-oil LDCs. 2/ The combined impact of these two factors led to a sharp deterioration in the non-oil LDCs' current account position. From an $11.3 billion deficit in 1973, the non-oil LDCs' current position (exclusive of official grants-in-aid) deteriorated to a $30.4 billion deficit in 1974 and a $38 billion deficit in 1975.

1/ As used in this report, a country's current account position is the sum of its trade balance and its balance on services and private unrequited transfers. The major service items are receipts and payments from freights and insurance on merchandise trade, from tourism, from interest, profits and dividends, and from workers' remittances. To the extent that a current account deficit, thus defined, is not covered by direct foreign investment inflows or a reduction in a country's foreign exchange reserves, it must be financed by borrowing or grants. The current account figures cited here are from the International Monetary Funds Annual Report for 1979. Under a definition of current account balance which includes official transfers, these deficits were somewhat lower: $19.7 billion in 1976, $14.5 billion in 1977, and $24.3 billion in 1978.

2/ Excludes the following LDCs: Iraq, Kuwait, Qatar, Saudi Arabia, United Arab Emirates, Iran, Oman, Venezuela, Nigeria, Algeria and Indonesia. The first six are the major capital surplus oil exporters.

While it is normal for LDCs to register current account deficits, the deficits registered in 1974 and 1975 were abnormally large, reflecting the coincidence of a sharp rise in the oil import bill with a recession-induced softening in LDC export prices and volumes to the industrial countries. Since 1975 the non-oil LDCs have continued to register large current account deficits: $25.5 billion in 1976, $21.9 billion in 1977 and $31.3 billion in 1978. Preliminary figures for 1979 place the non-oil LDCs' current account deficit at around $48 billion. The poorest countries -- mainly those with a per capita income not exceeding U.S. $300 in 1977, as estimated by the World Bank -- account for about $9 billion of the $48 billion. Major LDC exporters of manufactures account for about $17 billion or 37% of the total. Included in this group are Brazil, South Korea, Taiwan, Hong Kong, Argentina, Singapore, India and Israel. A group of LDCs which are minor net oil exporters 3/ account for about $9 billion or 20% of the total. The remaining non-oil LDCs account for $13 billion or 23% of the total.

Successful intermediation through private banks and international bond markets of the current account surpluses of the oil exporting countries and selected industrial countries was the dominant factor in financing the large non-oil LDC current account deficits in this period.

2. GROWTH IN INTERNATIONAL BANK LENDING TO LDCs

While aggregate lending statistics obscure quite important differences in access to private bank finance between middle and lower income developing countries, the aggregate statistics are nevertheless revealing.

3/ Bahrain, Bolivia, Columbia, Congo, Ecuador, Egypt, Gabon, Malaysia, Mexico, The Netherlands Antilles, Peru, Syria, Trindad and Tabago, and Tunisia.

Excluding the debt of the six capital surplus LDC oil exporters, the public and publicly guaranteed external debt of the LDCs with original maturity greater than one year rose from $80 billion to $220 billion between 1973 and 1978. This corresponds to an average annual rate of increase of 22.4%. By major creditor groupings, debt to international institutions grew at about the same average annual rate as total lending to LDCs.

Outstanding loans by governments increased at an annual average rate of 14%. Lending by private creditors, excluding banks (e.g., suppliers, bond holders, etc.), grew at 16% per annum. In contrast, lending by private banks grew at an average annual rate of 43%. In 1973, LDC public debt to private banks was $13.7 billion or 16% of the total debt of $80 billion. By 1978 LDC public debt to private banks had risen to $78 billion or 32% of the total debt. Thus, accompanying the sharp rise in total debt was a noteworthy change in the creditor composition of LDC debt. In 1978, private banks became the largest single source of public and publicly guaranteed medium term credit to LDCs, exceeding loans from international institutions ($33.2 billion) and governments ($77 billion). 4/

4/ For a more detailed examination of LDC debt, see Section 5 of the Annual Foreign Assistance Report for 1980, "Debt Servicing Capacities of U.S.-Assisted Less Developed Countries; Debt Relief and Net Aid Flows," submitted to Congress in response to Section 634 (a)(5).

As noted above, these aggregate lending statistics mask quite important differences in the amounts and creditor composition of medium and long term guaranteed debt between the middle and lower income LDCs. Of the $220 billion in aggregate medium and long term guaranteed debt in 1978, about $165 billion, or over 75% of the total, represented debt of the middle income LDCs. Only $55 billion or 25% represented debt of the lower income LDCs. In addition to the striking difference in debt volumes between the middle and lower income LDCs, there is an equally striking difference in the creditor composition of the debt between these country groupings.

Of the $165 billion in middle income LDC debt in 1978, $102 billion or over 60% represented debt to private sources, mainly private banks. Thus, only $63 billion or 40% represented debt to official sources - governments and international institutions. In contrast to the dominance of private debt in middle income LDC medium and long-term guaranteed debt, officially held debt dominates the medium- and long-term guaranteed debt of the lower income LDCs. Of the lower income LDCs' medium and long term guaranteed debt of $55 billion in 1978, over 80% or $45 billion represented debt to official sources. Only $11 billion or 20% represented debt to private sources.

In both groups of countries, however, private debt has been the fastest growing form of debt. In 1973, privately held debt represented less than 10% of the medium-and long-term guaranteed debt of the lower income LDCs. In 1978, it represented 20%. In 1973, privately held debt of the middle income LDCs represented about 50% of total medium- and long-term guaranteed debt. In 1978, it represented 60%.

There is no single explanation for the marked differences in the volume and creditor composition of LDC medium-and long-term guaranteed debt between the lower and middle income LDCs. In part, the much larger volume of middle income LDC debt simply reflects the fact that the trade of these countries is much larger than the trade of the lower income countries. Given larger trade volumes, larger trade volumes, even small percentage differences between export and import values translate into much larger trade imbalances than do smaller trade volumes. Since the trade balance is the principal component of the current account balance, financing requirements are likely to be larger for the middle than for the low income LDCs for given percentage differences between export and import values. With respect to the difference in creditor composition of debt between lower and middle income LDCs, a number of factors are at work. The low income countries are the primary focus of attention by official financial sources, much of whose lending is on concessional terms.

For a variety of reasons, the access of the lower income LDCs to private bank finance is limited. The dominance of private bank finance in the middle income LDCs reflects the relatively advanced structure of their economies, relatively limited access to official financial sources and, most importantly, availability of international liquidity against the background of the private banks' evaluation of their credit worthiness.

3. ECONOMIC IMPLICATIONS OF RISE IN PRIVATE BANK FINANCING

The terms of private bank credits are considerably less attractive from the point of view of financing development than are the terms of loans from multilateral institutions and governments. In terms of maturity structure, for example, the weighted average maturity of private credits contracted by LDCs in the period 1973 to 1977 ranged between 7 and 11 years. In contrast, the weighted average maturity of government credits ranged between 22 and 23 years while those international institutions ranged between 24 and 31 years (though this includes the highly concessional lending which is not primarily directed to middle income countries). In terms of interest rates, the weighted average interest cost of private credits was somewhat over 8% in the 1973-77 period. In contrast, the weighted average interest cost of loans from governments averaged less than 5% while the weighted average cost of loans from international institutions was about 6.5%.

The combined effect of the sharp growth in total LDC external debt and, within this growth, the heavy reliance on private bank finance at short maturities and high interest rates has greatly increased the LDCs debt service obligations. This is only partly illustrated by the rise in the LDCs' debt service ratio to an average of about 12% in 1977 and 1978 from an average of below 10% between 1974 and 1976.5/ This is because the amortization component of the debt service obligations of much of the debt contracted in the latter part of the 1973-78 period has yet to show up in the statistics, because of grace periods of amortization payments.

In spite of the fact that the full impact of debt service obligations has yet to show up, some countries have already encountered debt servicing problems. Significant problems of debt management have been experienced by a few countries. Less serious problems have been experienced by a number of other countries. While the banks do not have large exposures in all of these countries, the fact that difficulties have arisen has tended to reinforce a conservative attitude towards extending lending to all but the most creditworthy LDCs.

5/ Data source: IMF Annual Report for 1979.

4. PROSPECTS AND FINANCING NEEDS IN 1980

These developments take on greater concern when viewed in the context of the direct and indirect impacts of the oil price increases in 1979 and anticipated trends for 1980. Recent estimates place projected oil prices in 1980 about 120% above the average price paid in 1978. Actual prices paid in 1979 are estimated to have averaged about 40% above those paid in 1978.

The recent oil price increases have already begun to reproduce the same sort of economic scenario that characterized the 1973/74 oil price spiral:

-- a massive shift in the pattern of world current account imbalances characterized by a huge increase in the oil exporters' current account surpluses, and matched by an equal deterioration in the combined current account positions of the industrial and non-oil developing countries.

-- the exacerbation of a slowdown in economic activity in the industrial countries, with an associated adverse impact on LDC export volumes and export price trends.

-- an exacerbation of inflation rates in the industrial countries associated with increases in LDC import prices from industrial countries, and a rise in interest rates and LDC borrowing costs in industrial countries.

On the basis of recent data and these events, it is estimated that the non-oil LDCs will record a current account deficit in the range of $50-70 billion in 1980.

Concern about the size of the 1980 deficit derives from both real and financial considerations. Given the deterioration in LDC export prices relative to import prices and the continuing rise in interest service payments, maintenance of LDC import volumes is likely to require a current deficit in 1980 in the higher reaches of the $50-70 billion range. Financing a deficit of this magnitude may prove to be more difficult than in recent years, and a decline in real income may be inevitable.

Many of the larger international banks which have been active in providing credit to LDCs are expressing concern about their longer-run ability to intermediate on the scale of projected financing needs. In part, this reflects the growth over the past five years in net credit to LDCs to levels approaching internally established lending limits or exposure in particular LDCs which the banks appear reluctant to increase given their more cautious view of that country's economic prospects and debt servicing capacity.

National regulatory authorities in many of the major industrial countries have adopted a more cautionary view toward international lending to LDCs.

Increases in total governmental lending to LDCs through large expansions in bilateral aid programs are highly uncertain at this stage.

The traditional focus of the multilateral institutions -- particularly the multilateral development banks -- on financing projects with an associated long lead time in preparation and slow disbursement pattern suggests that major increases in traditional forms of multilateral institutions' lending is unlikely to occur.

There are, however, a number of offsetting factors on the private side.

Some of the larger middle income LDCs borrowed in excess of current account financing needs in 1976-1978. The resulting excess of borrowings was added to reserves. Thus, the reserve accumulation which occured in the 1976-1878 period provides some additional margin in meeting the financing requirments of some non-oil LDCs.

The multilateral development banks are exploring the possibility of increasing more quickly disbursing forms of lending to LDCs. Increased attention is being devoted to exploring co- and parallel financing between the MDBs and private lenders. The LDCs themselves are making greater internal efforts to adjust to the prospect of higher oil prices combined with a softening in traditional export markets and prices.

Drawings under the various IMF facilities may increase. Fortunately, the IMF should be in a strong position to meet increased official financing needs. The resources of the Fund have been increased with the establishment of the Supplementary Financing Facility and the expansion of quotas scheduled to come into effect in the fall. Access to those resources and the period of adjustment have also been expanded with the liberalization of the Compensatory Financing Facility, extention of maturities on the Extended Fund Facility, and modification of the guidelines of IMF conditionality.

In spite of the sharp rise in total external debt and a rising ratio of debt to export earnings of some middle-income countries, aggregate LDC export growth has, until quite recently, prevented a sharp rise in overall debt service ratios. While export prospects are highly uncertain at this point, there may be a tendency, as was the case in 1973/74, to underestimate the buoyancy of LDC export growth prospects.
While these are favorable factors, there appears to be no way to avoid the conclusion that the situation facing the LDCs is highly uncertain and, on balance, unfavorable. The more developed LDCs may face a cutback in their traditional access to private bank finance. The poorer countries face a situation in which financial

flows from governments and international institutions may be insufficient to offset the projected deterioration in their current account position. For these countries imports may have to be reduced and this may adversely affect their growth prospects. In any case, the non-oil LDCs as a group will face a period in which there will have to be an intensification of internal efforts to adjust to higher oil prices and slack demand in traditional export markets and products.

5. THE OVERALL ROLE OF PRIVATE BANKS IN LDC FINANCE

The statistics given above on medium- and long-term guaranteed debt, while providing a common basis for comparing private bank finance with finance by governments and international institutions, actually understate the role of private banks. Unlike governments and international institutions, private banks are heavily involved in private as distinct from public and publicly guaranteed debt. They are also heavily involved in short term "trade" credits. Such credits usually carry original maturities of less than one year.

Inclusive of loans in all maturity ranges and independently of whether the borrower is public or private, private foreign bank claims on the non-oil exporting LDCs totaled $140 billion as of June 1979. 6/ Of this amount, $91 billion represented claims on LDCs in Latin America, $7.3 billion represented claims on LDCs in the Middle East, $29.3 billion represented claims on non-Middle East Asian countries and $12.4 billion represented claims on non-Middle East African countries. The growth rate of total bank credit to the non-oil LDCs is comparable to the growth rate of private bank credit to public and publicly guaranteed borrowers.

6/Data source: Bank for International Settlements, External Claims as Reported by Banks in Major Financial Markets.

6. ROLE OF U.S. BANKS IN LENDING TO LDCs

U.S. banks are major participants in private bank lending to LDCs. As of June 1979, U.S. bank claims on the non-oil LDCs totaled $54 billion, or close to 40% of all such foreign bank claims on the non-oil LDCs. Of the $54 billion, $17 billion represented claims on public borrowers and $37 billion represented claims on private borrowers. Much of the lending to the latter is publicly guaranteed. As is the case with other foreign bank claims on the non-oil LDCs, U.S. bank claims on the non-oil LDCs is highly concentrated in particular regions and, within these regions, in particular countries. Of the $54 billion in U.S. bank claims on the non-oil LDCs, $36 billion represented claims on Latin American and the Caribbean region, $15 billion represented claims on Asia and $3 billion represented claims on Africa.

7. REGIONAL DISTRIBUTION OF U.S. BANK LENDING TO PUBLIC OR PUBLICLY GUARANTEED NON-OIL LDC BORROWERS

Within Latin America, Brazil is the largest borrower, accounting for $13 billion of U.S. bank claims. Mexico is the second largest borrower, accounting for $10.5 billion. Argentina is the third largest borrower, accounting for $3.5 billion. Together, these three countries account for over 70% of U.S. bank claims on Latin America and almost 50% of total U.S. bank claims on the non-oil LDCs.

Within Asia, South Korea is the largest borrower, accounting for $4.8 billion of U.S. bank claims. Taiwan is the second largest borrower accounting for $3.5 billions and the Philippines is the third largest borrower, accounting for just over $3 billion. Together, these three countries account for over 75% of total U.S. bank claims on Asia and 20% of total U.S. bank claims on the non-oil LDCs.

8. COUNTRY CONCENTRATION OF U.S. BANK LENDING

These statistics pointedly illustrate the concentration of U.S. bank lending to non-oil LDCs. Fully 70% of U.S. bank lending to the non-oil LDCs is accounted for by six countries: Brazil, Mexico, Argentia, South Korea, Taiwan and the Philippines. All of these countries are commonly regarded as middle or upper income developing countries. All have demonstrated "track records" for relatively sound debt management and overall economic performance and prospects.

9. RECENT DEVELOPMENTS IN THE U.S. SHARE OF BANK LENDING TO LDCS

The share of U.S. banks in all foreign banks' claims on non-oil LDCs has declined in recent years. It stood at 50% in 1977 and at 40% as of June 1979. In part, the recent decline in the U.S. share reflects differing relative credit market conditions in the U.S. and other developed country lenders to the LDCs. In addition European banks have recently become more active in competing for LDC customers.

10. THE REGULATORY ENVIRONMENT

As a result of the large upsurge in U.S. banks foreign lending and the concentration of this lending in a few countries, the Office of the Comptroller of the Currency formed a committee of examiners in the early 1970s to assess risks involved in lending to borrowers in particular countries. This committee was expanded in 1978 to include members from the Federal Reserve System and Federal Deposit Insurance Corporation. The committee -- Interagency Country Exposure Review Committee -- meets three times a year to discuss the current status of particular countries. Formerly, regulatory emphasis was on any entity basis, independent of the implied country exposure. The focus of these new examinations is on whether aggregate lending to all entities in a particular country implies an overconcentration of lending to that country.

II.D. NORTH-SOUTH DIALOGUE

1. INTRODUCTION

Since the Sixth Special Session of the United Nations General Assembly, the United States has participated with other developed and developing countries in a variety of discussions dealing with change in the international economic system. These discussions -- which have dealt with a wide range of international economic issues -- form a major part of what is refered to today as the "North-South Dialogue." Central to these discussions is the question of the role that developing countries will play in an evolving international economic order.

In North-South discussions in the United States and in other specialized fora, the United States and other developed countries of "the North" as well as the developing countries of "the South" have said repeatedly that there is need for change in certain international economic policies and structures, but fundamental differences of opinion exist on the extent of change that is needed; how change should be achieved; how the international economy should be structured; and how international economic institutions should be governed.

Developing countries, for their part, argue that present international economic arrangements impede development, and that there is a need for substantial "reform" and restructuring of the existing economic order. Specifically, LDCs want to increase the flow of resources from richer to poorer states; to improve LDCs' access to markets, capital, and technology; and to provide LDCs with a greater voice in the governance of international economic institutions.

Existing patterns of trade and investment and the international institutions which reflect and regulate those patterns provide unfair advantages to developed countries, the LDCs claim. The way to alter existing patterns, they argue, is through intergovernmental negotiations on a wide range of issues -- from the "redeployment of industry," to agreements on international trade of commodities, technology transfers, and regulation of transnational enterprises.

In addition, LDCs have pressed for decision-making power in the international institutions, particularly those dealing with money and finance. They have sought "automatic" resource transfer -- i.e, the transfer of resources from such non-appropriated sources as an international tax on deep seabed mining or the increased allocation of new SDRs to LDCs -- and they have suggested that at least some funds for multilateral assistance programs should come from assessed contributions. Their call for non-appropriated or assessed funds has been made partly in the hope of getting more concessional financing, partly in the hope of ensuring more certain and continuous funding, partly as a way to avoid the "paternalism" that they feel is characteristics of current donor recipient relations, and partly as a way to avoid conditions that, one way or another, are attached to development assistance whether provided bilaterally or multilaterally.

From the South's perspective--one that sees the existing international economic system as inequitable and in need of fundamental reform -- measures agreed to over the course of the last few years represent little progress toward establishing a new international order. There has been no "restructuring" of the Bretton Woods institutions, no major change, that is, in how decisions about the management of international economic relations are made, and no significant change in the distribution of decision-making power among participants in the system. Nor has there been any basic change in the rules governing the system --in trade, in the distribution of liquidity, in the allocating of long-term development financing, or in ways of mobilizing official development assistance.

To bring about a new economic order, the LDCs contend negotiations are required at the political level and progress is dependent largely on "political" will.

The United States and other developed countries have recognized that international economic mechanisms and rules must be responsive to changing world conditions in order to continue fostering a growing, more open, stable, international economy. Developing countries themselves, however, bear the major burden for responding to the challenges of development. International resource transfers and international economic policies can make important contributions to their prospects for development. But in the final analysis, the soundness of policies followed by each developing country will be the most important factor to influence its economic performance.

What we are seeking in negotiations with "the South", as stated by Secretary Vance in his Seattle speech in March, 1979, is evolutionary "progress toward a more equitable and healthy new international economic order." Our objectives in the North-South dialogue, as spelled out in that speech include, in brief:

-- support of strong and equitable growth in developing countries, while recognizing that at times this will require facilitating adjustments in our own economy;

-- improvement in the international system in ways which will be mutually beneficial, which will be responsive to the particular needs of developing nations, which will accord LDCs an appropriate voice in decisions that affect them and which, by the same token, concur with the notion that as nations develop, they incur increasing responsibility to contribute to, as well as to gain from, the international economy;

-- the search for practical ways to have an appreciable impact on the lives of people around the world.

As the United States Government has publicly and repeatedly noted, a new international economic order is evolving all around us. Recent monetary events, the development of a substitution account, the pricing of petroleum, and the recycling of petrodollars are indicative of the present period of change. Further progress can best be achieved on these and other critical issues by addressing specific problems in specialized forums.

2. BACKGROUND TO THE NORTH/SOUTH DIALOGUE

The Sixth Special Session of the United Nations General Assembly, convened in May 1974 in the aftermath of the oil embargo and a dramatic hike in the OPEC oil price, adopted a Declaration and Program of Action on the Establishment of a New International Economic Order. This resolution was supplemented by a Charter of Economic Rights and Duties of States in December 1974. A number of key provisions in these two documents -- which contain the South's agenda for change -- were not accepted by the United States and other developed countries, and the years 1973 and 1974 stand out as the most confrontational.

The Seventh Special Session in September 1975 was conducted in a more cooperative spirit. Some of the most contentious issues of the previous special session were set aside; some initiatives were set out by the United States and the final resolution represented a shift from "confrontation" to "dialogue." The dialogue continued through the Conference on International Economic Cooperation (CIEC) which ended in June 1977. Though there was no breakthrough on major issues under consideration at CIEC, both "North" and "South" agreed at the end to a consensus resolution covering a range of issues including trade, aid, energy, and commodities.

Following the Conference on International Economic Cooperation, it was agreed that a new UNGA Committee of the Whole (COW) would serve as a new organ for discussing North-South issues. In 1979, by agreement in the 34th UN General Assembly session, the COW was designated the preparatory committee for a new round of global negotiations on international economic cooperation.

3. RECENT TRENDS

Progress has also been made in recent years on a number of concrete issues. As discussed in more detail in subsequent chapters of this report, important developments occured in 1979 in the fields of trade, commodities, money and finance.

-- After more than six years of negotiations, the Multilateral Trade Negotiations (MTN) were brought to a conclusion. The resulting agreement is expected to benefit the developing countries through tariff reductions and some special and differential treatment.

-- In the commodities field, long a central focus of the North-South debate, agreement was reached on the framework of a Common Fund.

-- Donors agreed to a general capital increase for the World Bank; replenishments for the Inter-American Development Bank and the Asian Development Fund went into effect; the United States and other OECD countries agreed to membership in the African Development Bank.

-- Within the context of the International Monetary Fund, the Supplementary Financing Facility commenced financing operations in support of countries with severe balance of payments problems; the Trust Fund continued to provide financing to eligible developing countries; the Compensatory Financing Facility was further liberalized; and the IMF agreed to consider social and political factors in determining conditionality for assistance to countries in balance of payments difficulties.

Progress on these and other points reflects a growing awareness on the part of both North and South, that increased cooperation on particular issues offers a potential for economic gain far in excess of what countries can hope to achieve acting on their own or through confrontation. North and South have a shared interest in stable and sustainable world economic growth; considerable and predictable resource transfers from richer to poorer states; and an open trading system. A common, global effort is needed to insure in the years ahead adequate supplies of food and energy; efficient management of the world's limited land, water, and other critical resources; progress in the field of health; and a better balance between population and world resources. Increased investment flows from richer to poorer countries can be a benefit in generating employment and can provide high economic rates of return; and given limited global resources and growing demand for global product all nations can benefit from transfers of technology and the application of technological progress in such areas as food production, management of the environment, the search for new sources of energy, and improvements in health.

These issues have come up in a series of international discussions which, at their most political level, occur in the United Nations. Discussions between North and South also occur regularly on a more technical level in an array of specialized forums, many of which are referred to throughout this report. What follows is only a brief summary of some of the issues raised in the course of 1979 in the broader, political forums.

UNCTAD V

The fifth United Nations Conference on Trade and Development (UNCTAD V) met in Manila in May 1979. The meeting covered a wide range of issues. It passed consensus resolutions on a member of them -- including the protectionism and structural adjustment, and aid to the least developed countries. It was a significant meeting in a number of regards.

With agreement having been reached in March on the framework for a Common Fund -- a central issue in prior UNCTAD sessions, -- Group of 77 (the developing countries caucus) entered UNCTAD V with no clear agenda. But they came to the conference with serious concerns about the outcome of the Tokyo Round of multilateral trade negotiations, fears about rising protectionism and declining rates of world economic growth, all of which were taking a heavy toll in the developing world. As a result, UNCTAD V was marked by a new or at least renewed emphasis on the need to maintain an open trading system, on structural adjustment as a key international issue, and on the relationship between economic growth in the North and the development prospects in the South.

In a concluding resolution, adopted by consensus, UNCTAD member states agreed that "structural adjustment is a constant and global phenomenon which the international community should facilitate by conscious efforts" to ensure overall growth, development and diversification of LDC economies, and an effective international division of labor. They also decided that UNCTAD should conduct an annual review of changing patterns of global trade and production. And they noted that developed countries should facilitate the development of new policies and strengthen exisiting policies that would encourage domestic factors of production to move progressively from the lines of production which are less competitive internationally. In giving attention to the problems of least developed countries, the conference decided without dissent to launch a "Comprehensive New Program of Action for the Least Developed Countries", and called for the provision of "much larger flows" of assistance to such countries. Preparations will be made in 1980 for a special UN Conference on the least developed countries, to be held in 1981.

On development assistance generally, UNCTAD V urged all donor countries "to increase effectively and substantially" their official aid flows, and called specifically for a doubling of ODA for least developed countries.

UNCTAD V also proposed intensified action to reach agreement on individual commodities. And it agreed to lines of action for a possible international strategy to boost the technological capacity of the Third World. But agreement could not be reached in Manila on the main issues that have so far blocked completion of a code of conduct for the transfer of technology.

Intensive negotiations also failed to produce a resolution on another major agenda item -- dealing with interdependence and conditions in the world economy. Here, and in other discussions, the issue of energy was paramount. Indeed, UNCTAD V was marked by a break in the ranks of the Group of 77 between oil-importing LDCs and OPEC. As some G-77 representatives argued, it was impossible to discuss broad issues of economic interdependence without discussing energy and its impact on development. In the end the oil-importing developing countries agreed not to press the issue at the conference; and the OPEC countries,in part to get agreement to avoid discussion of LDC energy problems in Manila, reportedly agreed to consult outside UNCTAD V with the oil-importing LDCs.

THE HAVANA MEETING OF THE NON-ALIGNED MOVEMENT AND THE CALL FOR GLOBAL NEGOTIATIONS

Following the apparent compromise struck between OPEC and the oil-importing LDCs, energy was a major economic issue at the Non-Aligned Summit in Havana in September. At that meeting, there was a major effort on the part of Premier Castro of Cuba, the current chairman of the Non-Aligned Movement, to shift the general orientation of the group toward a more pro-Soviet position. While Cuba succeeded in obtaining some pro-Soviet political statements, its victory came at the cost of extensive resentment of its high-handed manipulation of the meeting.

The overriding concern of most participants was with their deteriorating economic circumstance. This came out in the debates on economic issues. In particular, the oil-importing developing countries proposed that intra-LDC discussions be held on the relation of energy prices to development. And, they called on OPEC countries to grant them preferential treatment on energy. In response, the oil-importing countries proposed that energy be discussed within the context of a new round of global negotiations. In the end, the OPEC view reportedly prevailed. No "oil concessions" were agreed to in Havana. Instead, the Non-Aligned Summit ended with an apparent agreement to hold South-South talks on a range of issues including energy, and with the adoption of a resolution proposing that negotiations on a broad range of international economic issues be held within the United Nations.

A week after its adoption, the Havana resolution on global negotiations was submitted to the UNGA's Committee of the Whole, and became the basis for a UNGA resolution approved by the full membership of the UN which recommended that the UNGA "launch" at its September 1980 Special Session," a round of global and sustained negotiations on international economic cooperation for development." The resolution stated that the global negotiations are to take place within the

United Nations, with the full participation of all states and within a specified timeframe. They are to include major issues in the fields of raw materials, energy, trade, development, money and finance. They are to avoid duplicating or disrupting negotiations in other specialized forums -- such as the IMF and GATT. The Committee of the Whole is to act as the preparatory committee and is to make recommendations on the procedures, timeframe, and detailed agenda to the Special Session in August 1980. Within the first half of 1980, talks will be held to identify the issues on which global negotiations might be held. And it is agreed that the actual round of negotations can take place only if a consensus is achieved in the preparation.

The Administration believes that, if properly prepared, the global negotiations have the potential to lead to benefits for all states or groups of states. And we are pledged to make a sustained and constructive effort to arrive at an agenda and procedure that will enable global negotiations to be launched.

The United States has argued that if the negotiations are to be successful, they must focus on issues that can be advanced through international deliberations and whose resolution will serve the interests of all. We will urge, in the preparatory talks, that the global negotiations focus on specific high priority issues; that negotiations on these issues should be decentralized; and that wherever possible each issue be taken up in existing specialized international forums.

There are several things that should be noted about the round of global negotiations agreed to at the end of 1979. First, it is clear that these will be difficult negotiations in a difficult time. Each of the three main groups of participants -- OPEC, the oil-importing developing countries, and the developed countries -- will enter into negotiations with different goals and objectives. OPEC countries are likely to try to use the global negotiations as a means of containing pressures from oil-importing LDCs for relief from increased oil prices, and to blame the problems of the developing countries on the economic problems of the developed countries.

For the oil-importing LDCs, a main goal is likely to be obtaining increased financial support to offset higher oil prices by seeking concessions from both OPEC and the industrialized countries. Further increases in prices, and continuing inflation and recession have taken a heavy toll on LDCs. Many now face the choice of increasing further their indebtedness, if they can, to pay the additional costs of oil, or cutting back on oil imports and other capital goods, thus adversely affecting development prospects. But the specific problems that groups of LDCs face are increasingly diverse, and their objectives and priorities going into the global negotiations far less unified then in the past.

The developed countries objectives will include an attempt to focus attention on the critical global problems, while urging each nation to assume its appropriate responsibilities for their resolution.

A second point to note about the global negotiations is that difficult as these negotiations may appear to be at the outset, several things are likely to distinguish them from earlier North/South encounters in the UN or in the Paris Conference on International Economic Cooperation (CIEC). Unlike the earlier special session in the UN that dealt with LDC demands for a new international economic order, the global negotiations will be structured in advance, through preparatory meetings. In this way, the global negotiations will be more like CIEC; but they may be able to avoid the linking of progress on each issue to the progress on all the others that brought CIEC to a final impass. The participation of more countries in the global negotiations will mean that the round of talks will be more unwieldly than CIEC. However, universal participation will avoid the problem of the participation of LDC spokemen without power to take positions for the LDCs as a whole, which was a major obstacle at CIEC. Moveover, world economic and political conditions have changed markedly since CIEC -- affecting the interests of all countries and, perhaps, improving the prospects for a constructive negotiation.

THE INTERNATIONAL DEVELOPMENT STRATEGY FOR THE THIRD DEVELOPMENT DECADE

The International Development Strategy for the Second Development Decade for the 1970s set forth objectives in economic and social areas to be achieved over the decade. National and international policy measures to promote development were also included in the IDS. In practical terms, the IDS set standards for LDCs and DCs against which long-term development "progress" could be assessed. It was also intended to serve to improve public awareness of critical development objectives and of needed cooperation; to guide efforts of both developing and developed countries in promoting development; to highlight priority objectives; and to provide a framework for some of the sectoral work of the United Nations.

Throughout 1979, the United Nations through its preparatory committee for the Third Development Decade, worked on drafting an IDS for the 1980s. By the fall of 1979, a preamble had been drafted and a timetable established for continuing negotiations on other elements of a new IDS with a view to presenting the results to the UNGA Special Session in August 1980. But sections of the preamble remain in dispute, particularly those which deal with the extent of "progress" made in the 1970s and the obstacles to development in the 1980s. As in other North-South discussions, the developing countries have agreed that the establishment of "the New International Economic Order" is critical to their development, while developed countries have given emphasis to the internal constraints to development and the responsibilities of the LDCs for their own development.

In preparatory meetings, the United States has indicated that the IDS for the 1980s should concentrate on improvements in living standards that will be substantial, widespread, equitable and sustainable.

To achieve substantial improvements in living standards there must be rapid growth of income and of production in the developing countries, particularly in low-income countries. Within countries, the pattern of growth should be equitable and include significant improvements in the living standards of those people currently too poor to satisfy their basic needs. And, for this progress to be sustainable, improvements in living standards must derive from increases in productive capabilities and reductions in the rate of population growth.

In the first half of the 1980's discussions will continue to focus on the "goals and objectives" of a new IDS, and on the policy measures that are needed if the objectives are to be realized. And over the course of the next few months, the precise relationship between the global negotiations and the IDS will have to be worked out.

Generally speaking, the IDS ought to provide a broader policy framework for national and international development efforts in the decade ahead; and the global negotiations ought to focus on certain specific, critical issues on which genuine progress is possible and is likely to contribute to the achievement of the goals of the Third Development Decade. However, while the IDS deals broadly with problems of development, the new round of negotiations, as the United States has stressed, are "global" and concerned with overall international economic issues in which all countries have significant interests.

PROSPECTS FOR THE NORTH/SOUTH RELATIONS IN THE 1980

It would not be difficult to be pessimistic about the prospects for North/South relations in the 1980s. The mere schedule of major conferences to be held over the course of the next 12-18 months -- including the actual beginning of global negotiations sometime in early 1981 -- offers abundant opportunity for political confrontation if participants are not prepared for practical cooperation.

LDCs have repeatedly stated their frustration with what they see as a lack of progress on creating a new international economic order. Indeed what they preceive is "backsliding," not significant progress. They are fearful of rising protectionist pressures in the North, and discouraged by concessional aid performance on the part of the developed countries, especially the United States, Germany and Japan.

The developed countries, for their part, are preoccupied with domestic economic problems. The most recent OECD projections for 1980 (which do not fully take into account the latest round of price increases) put overall 1980 OECD growth at one percent compared to over two percent in 1979, while inflation is expected to rise from 8 percent in 1979 to over nine percent in 1980.

There are also the several outstanding issues that affect all discussions between North and South -- whether those discussions occur within UNCTAD, UNIDO, the IMF or other international forums. These issues include the differing emphases put on the need for change at the internal and at the international level; differences in points of view regarding the role of governments in directing change; the validity of differentiating among developing countries in terms of "rights and obligations" they should assume; and differing views on the adequacy of existing international economic institutions.

Yet, one could also argue that both economic trends and political events are providing new opportunities for significant departures and constructive initatitives.

III. INTERNATIONAL DEVELOPMENT ASSISTANCE

III.A. THE MULTILATERAL DEVELOPMENT BANKS

The United States provides a major share of its development assistance through the multilateral development banks (MDBs). The MDBs are especially well-equipped to continue to play a major development role in the 1980s. First, they are able to generate large amounts of capital because of backing they receive from their large number of member donors, and their consequent ability to borrow in private markets. In Fiscal Year 1979 alone, MDB commitments totaled over $13 billion. Second, they have the technical expertise to develop sound projects. With the combination of qualified staff and financial resources, the banks are particularly qualified to fund large, high-cost projects, such as basic infrastructure, which are crucial to the economic progress of developing countries.

As multilateral organizations, the development banks are more able than individual donor countries to prescribe conditions for lending and to advise borrowing countries on broader economic policies. Their international character has also made them effective in coordinating development lending activities of various donors. Through their chairmanship, or participation in, consultative groups and aid consortia, the MDBs have contributed to improved coordination of multilateral and bilateral aid programs.

By mobilizing resources for development through the MDBs, the burden of such assistance is shared among donor countries. In the recent replenishments, the United States share of total MDB contributions was 23 percent.

During 1979, the U.S. continued to pursue a number of policy objectives in the MDBs with the overall aim of helping the developing countries to achieve equitable growth. While no single country can dictate the policies of the banks, we have generally received cooperation on our initiatives from both other member countries and from the management of MDBs.

The United States also continued to use its voice in the MDBs to express concern about continuing violations of human rights in certain countries. We have sought to channel MDB loans to countries whose governments support, or have demonstrated increasing support, for these rights, and have opposed loans to countries in which rights are seriously violated unless the loans are for projects designed to meet basic needs. The U.S. has continued to consult widely with other governments, with the management, and with the boards of the banks themselves on this issue.

All of the MDBs have redirected the sectoral composition of their lending to meet basic human needs and to ensure that proportionately more individual project benefits accrue to the lower income groups in borrowing countries. This program orientation has been reflected in the relatively rapid growth of lending in the agricultural sector over the past several years. For example, World Bank lending for agriculture increased 145 percent over the period 1974-78, as compared with the previous five-year period.

One important means of helping to achieve the objective of more efficiently reaching the poor is the use of capital saving technology. Such technologies have the advantage of increasing the productivity and incomes of poor people at low per capita costs. In 1979, the United States continued to encourage the utilization and development of capital saving technologies by urging increased attention to the appropriateness of technologies in individual projects.

LEGISLATIVE ACTIVITIES IN FY 1979

In Fiscal Year 1979, legislation was submitted in the Congress to authorize U.S. participation in replenishments and increases in resources for the Inter-American Development Bank (IDB), the Asian Development Fund, and the African Development Fund. The total amount of the authorization request for these three regional institutions was $4,019 million to cover U.S. subscriptions and contributions to be made over a 3-4 year period beginning in FY 1980. The authorization request involved $2,749 million for the capital resources of the IDB; $700 million for the IDB's concessional window, the Fund for Special Operations; $445 million for the Asian Development Fund; and $125 million for the African Development Fund. At the end of FY 1979, congressional action on the request was still pending.

During FY 1979, the Administration also requested appropriations for U.S. subscriptions and contributions to the MDBs totaling $3,625 million. Of this amount, $990 million (27 percent) represented funds authorized by the Congress and previously requested but not appropriated in prior years. The remaining $2,635 million was sought to meet U.S. funding requirements for the MDBs for FY 1980. The breakdown was as follows:

TABLE 3
FY 1980 Appropriations Requests for the
Multilateral Development Banks
($ millions)

	Administration Request
World Bank	
Paid-in Capital	102.6
Callable Capital	923.2
	1,025.8
International Development Association	1,092.0
International Finance Corporation	33.4
Inter-American Development Bank	
Paid-In Capital	51.5
Callable Capital	635.8
	687.3
Fund For Special Operations	325.3
Asian Development Bank	
Paid-In Capital	24.8
Callable Capital	223.6
	248.4
Asian Development Fund	171.2
African Development Fund	41.7
Total	3,625.1
(Total Paid-in Capital)	(1,842.4)
(Total Callable Capital)	(1,782.6)

At the end of Fiscal Year 1979, congressional action on the Administration's request for annual appropriations was also pending.

MULTILATERAL DEVELOPMENT BANKS ACTIVITIES IN FY 1979

WORLD BANK GROUP PROGRAMS

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

In its Fiscal Year 1979, the World Bank Group committed $10 billion in loans and other forms of assistance to borrowing member countries, an increase of $788 million, or eight percent over its lending level in Fiscal Year 1978. Of this total, IBRD lending amounted to $7 billion in Fiscal 1979 (as against $6 billion in Fiscal 1978), new IDA credits were $2.6 billion (down from $2.9 billion) and IFC commitments declined to $354 million in 1979 (as compared to $483 million in Fiscal 1978).

During Fiscal Year 1979, the IBRD and IDA continued their concentration on lending in support of agricultural development. IBRD commitments in the agricultural and rural development sector during FY 1979 totalled $1.7 billion. The amount for agricultural projects committed by IDA was about 40 percent of total IDA commitments, amounting to approximately $1.0 billion. Furthermore, loans for this sector have been increasingly directed to small farmers to alleviate hunger and to increase production for home consumption, or for sale on domestic markets. Lending for other sectors has included an increasing emphasis on projects designed to provide basic human needs, such as improved water supply education or family planning. IBRD lending also has continued to emphasize basic infrastructure to promote equitable economic growth.

In 1979, IBRD and IDA combined committed total resources of $9/8 billion for 251 projects in 79 countries distributed geographically as follows: Africa, 71 projects ($1,267 million); Asia, 76 projects ($3,852 million); Latin America, 52 projects ($2,277 million); and, Europe, Middle East, and North Africa, 52 projects ($2,375 million).

IBRD

Since 1947, cumulative World Bank loan commitments have amounted to $52.9 billion (of which $30.2 billion had been disbursed by the end of Fiscal Year 1979), making it far and away the world's leading source of long-term official capital for the developing world. These loans were financed by paid-in capital subscriptions for $3.7 billion with the balance of the necessary funds coming mainly from capital market borrowings backed by the callable capital of member states. When account is taken of other member countries capital subscriptions, the United States has actually paid-in less than two percent of the Bank's loan total of nearly $53 billion since 1947.

On June 28, 1979, the Executive Directors of the Bank agreed to recommend to the institution's Board of Governors that the World Bank's authorized capital stock be increased by an amount equivalent to $40 billion. The increase is roughly a doubling of the Bank's current authorized capital stock and will allow Bank lending to continue to grow in real terms through the middle 1980s. The Executive Directors also recommended that 7.5 percent of the authorized capital stock be paid-in with the remainder subject to call. The United States strongly supports this increase and views U.S.

participation as a key element in U.S. foreign assistance policy. This $40 billion increase is necessary to maintain the role the Bank now plays in the world economy as a provider of resources to promote growth with equity, as a catalyst to promote private capital flows and as a source of sound advice on development policies.

In January 1979, the Board of Executive Directors approved an expansion of the Bank's energy program. Loans for energy will grow to at least 15 percent of total Bank new lending within five years. Over the 1980-84 period, the Bank will lend $7.7 billion for the exploration, production and development of oil, gas, and coal, and for the construction of new hydro-electric facilities. The loans will be combined with approximately three times as much private and government financing. When the projects are in operation they will produce additional primary energy fuel in oil-importing developing countries estimated to equal between 2 and 2.5 million barrels a day of oil. The United States supported this expanded Bank role in helping developing countries realize their energy resource potential, particularly in the area of hydrocarbons. This should help to increase supply and thereby reduce upward pressure on oil prices.

In his address before the thirty-fourth annual meeting of the World Bank and IMF in Belgrade, Yugoslavia in October 1979, Treasury Secretary and U.S. Governor of the Bank, G. William Miller, advocated continued progress in Bank activities in the areas of productive job creation with reduced capital/labor ratios; moblization of domestic savings; direct investments in human capital through education, health and family planning; expanded co-financing; and, greater production of energy fuels.

IDA

The United States views IDA as playing a central role in international development process. IDA credits are extended to the poorest developing countries on concessional terms. The duration of the loan is 55 years with a 10-year grace period. They carry no interest but do have an annual service charge of 0.75 percent. While all countries with per capita incomes of less than $625 equivalent (in 1978 dollars) are eligible to receive IDA credits, particular attention is given to countries with per capita incomes of less than $320 equivalent (1978 dollars).

Approximately 90 percent of IDA's funds go to countries whose per capita income is below $320 per year (1978 dollars). The present 54 IDA eligible borrowers, most of which are located in Africa and South Asia, account for approximately 31 percent of the world's population, but only about three percent of global gross national product.

During 19 years of operations through June 30, 1979, IDA extended development credit totaling almost $17 billion in 74 countries. The largest sectors of its operations have been agricultural and rural development, and transportation. Almost, two-thirds of the agricultural funds have gone into agriculture credit, area development and irrigation, flood control, and drainage.

Although its relative share has declined lately, the second largest sector cumulatively has been transportation, with 17 percent of the total or $2.9 billion. Highways and railways have comprised over 80 percent of this total, with ports and shipping the other major subsector. This emphasis is due to the basic infrastructure needs of countries who have had little public funds available for these purposes and almost no private investment in this area.

The third largest functional activity has been power generation projects which represent 14 percent of cumulative IDA lending as of 1979. IDA also provides non-project loans which include maintenance imports and program loans totalling $2.2 billion, and representing 13 percent of cumulative IDA lending. Many of these activities have contributed to maintaining production of essential capital and intermediate goods needed for agricultural and industrial development, and in some cases, to expand exports in key sectors of the economy.

Three meetings of IDA donor countries were held in FY 1979 to negotiate the Sixth Replenishment of IDA. The main issues were the size of the replenishment and burden sharing arrangements. Other issues, such as conditions of the replenishment's effectiveness, the currency of obligation, and method of payment, were discussed as well.

Subsequently, agreement was reached on a $12 billion replenishment, of which the U.S. share would be 27 percent, sharply lower than the 31 percent U.S. share of IDA V. There were a number of important achievements in the negotations, namely:

-- the burden sharing arrangements were improved. The large reduction in the U.S. share was offset by substantial increases in the shares of Germany and Japan, two economically strong countries. For the first time in an IDA replenishment, the combined shares of these two countries exceeded the U.S.

-- in response to a request from the United States, IDA's management presented a paper detailing the expanded procedures utilized by IDA for the supervision and evaluation of all IDA projects. This will further improve the operating efficiency of what is universally recognized as one of the best-run concessional development institutions.

-- the negotiations provide real growth in development resources, with no real growth in the U.S. contribution.

-- six new LDC contributors are providing IDA with resources for the first time.

-- energy lending will expand rapidly during IDA VI, increasing world energy supply and helping to ease pressures on prices.

-- reaching-the-poor, especially through lending for agricultural and rural development will continue to be IDA's major thrust. Efforts to reach the urban poor will continue to expand.

IFC

In November 1977, the Board of Governors voted to increase the authorized capital of the IFC from $110 million to $650 million. Approximately $469 million of the new capital is to be paid as subscriptions. The U.S. share will be $112 million, or 23 percent of this amount. This compares with a United States share of 33 percent in the initial capitalization of the International Finance Corporation.

During Fiscal Year 1979, the IFC made loan and equity investments totaling $354 million in 48 enterprises in 32 developing countries. Brazil was the largest single recipient of IFC resources ($70 million), followed by Mexico ($58 million) and Turkey ($47 million). By sector, IFC commitments were concentrated in industry and mining (86 percent), followed by agriculture (11 percent), development finance companies and capital market development projects (3 percent). IFC investments represented approximately 20 percent of the costs of these projects, the remainder being financed from other, primarily private, sources. IFC operations in Fiscal 1979, raised the cumulative gross totals of its investment to $2,455 million.

INTER-AMERICAN DEVELOPMENT BANK (IDB)

As in the case of the other MDBs, the IDB has two sources of funds for lending: ordinary capital, which is lent on near market terms, and the Fund for Special Operations (FSO), from which loans are made on concessional terms. Thus, the Bank is able to provide a flexible response to the development needs of Latin American and the Caribbean countries.

During Fiscal Year 1979, the Inter-American Development Bank committed slightly over $2 billion of resources in development lending operations, or a 28 percent increase over the level of commitments made during Fiscal Year 1978. Of this amount $1,279 million represented IDB lending from its capital resources and $696 million constituted lending on concessional terms from the FSO. In addition, the Bank committed $122 million of resources from special accounts and funds (such as the U.S. Social Progress Trust Fund and the Venezuelan Trust Fund) that it administers for a number of donors.

The IDB focused most attention on energy, industrial and agricultural projects in its Fiscal 1979 lending program. Approximately 34 percent ($707 million) of its loans were for energy sector projects, 15 percent ($321 million) for industry and 19 percent ($402 million) for agricultural projects.

The IDB lending program is financed principally with resources from borrowings in the international private capital markets, the paid-in capital subscriptions of member countries, and member country contributions to the FSO. As of September 30, 1979, the total subscribed capital of the Bank was $11.6 billion (of which $1.4 billion was paid-in and $10.2 billion was callable), and FSO resources totaled $5.9 billion. The U.S. subscription to IDB capital shares amounted to $4.1 billion or 35 percent of the total. Including contributions authorized, but still pending appropriation, the United States has accounted for $3.6 billion or 62 percent of the total contributions to FSO resources.

During Fiscal Year 1979, the members of the IDB agreed to the Fifth Replenishment of the Bank's resources. For the four-year period from 1979-1982, member countries agreed to subscribe nearly $8 billion in capital resources, of which 7.5 percent or $598 million would be paid-in. The United States is scheduled to subscribe 34.5 percent of the total, of which $2.5 billion would be callable capital and $206 million paid-in. For the FSO, the members agreed to contribute $1.8 billion over the 1979-1982 period, of which the United States would contribute $700 million, or 40 percent of the total.

In the 1979-1982 Replenishment Agreement for the IDB, the United States made substantial progress toward meeting its goals of increasing lending to the poor, achieving more equitable burden sharing among Bank members, and reducing U.S. budgetary outlays. During the Fifth Replenishment period, the Bank will devote at least 50 percent of its lending to projects which benefit low-income groups, it will further concentrate its concessional FSO resources on the poorest countries in the region, and it will increase the proportion of total Bank resources lent to the less-developed members. Throughout Fiscal 1979 the IDB staff devoted a great deal of time and effort to developing methodologies for defining low-income levels, and measuring the flow of benefits to the low-income groups.

Over the Fifth Replenishment period, the U.S. share of both the capital and FSO resources will decline, while the non-regional members will take a share two and one-half times the size of their current share. In addition, several of the more advanced developing members will increse the convertible proportion of their contributions to the FSO from their current 24 percent to 75 percent. This increased burden sharing has enabled the United States to reduce its annual FSO contribution from $200 million during the last replenishment to $175 million during the 1979-1982 period. The agreement also provides for a 25 percent reduction in the percentage of capital to be paid-in. Together, these measures will enable the United States to reduce its combined outlays for FSO and capital by $13 million per year during the Fifth Replenishment period.

ASIAN DEVELOPMENT BANK

U.S. participation in the Asian Development Bank is an important element in our foreign economic policy in Asia and the Pacific. Forty-three countries (29 regional and 14 non-regional) are members of the ADB, and many of the Bank's borrowers are of special political and economic importance to the United States, including, for example, Korea, the Philippines, Thailand, Indonesia, and Pakistan.

ADB lending in Fiscal Year 1979, amounted to $985 million, as compared with $996 million in Fiscal 1978. Of the loans in Fiscal 1979, $583 million were funded with Ordinary Capital resources and $402 million with concessional resources.

In 1979, as in recent years, the agricultural and agro-industrial sectors were the largest beneficiaries of ADB lending, accounting for 31 percent of total lending. There was a substantial increase in the share of industry, agriculture and development finance institutions (22 percent) in total bank lending.

The largest borrower from ADB Ordinary Capital resources during Fiscal Year 1979 was Korea ($140 million or 24 percent) followed by Indonesia ($104 million or 18 percent) and the Philippines ($95 million or 16 percent). The largest borrower of ADB concessional resources was Bangladesh ($153 million or 38 percent) followed by Burma ($40 million or 10 percent) and Sri Lanka ($37 million or 9 percent). Pakistan, Thailand, Indonesia, and the Philippines are all sizable borrowers from both the ADB Ordinary Capital resources and its concessional resources.

During Fiscal 1979, the United States subscribed to $194.5 million of ordinary capital shares, raising the total United States subscriptions to slightly over $1 billion, of a total subscribed capital of $8.8 billion which provides the United States with a 10 percent voting share. The United States also contributed $70 million to the resources of the ADF, raising United States contributions to $270 million, out of a total of $2.1 billion from all sources.

In 1978, negotiations were completed on a second replenishment of the Asian Development Fund to finance its 1979-1982 lending programs. The replenishment became effective during 1979, when contributions in excess of $1 billion were received from various donor countries. The U.S. contribution to this ADF replenishment, which is still subject to Congressional authorization and appropriation, would be $445 million over the four-year period or about $111 million annually from 1980 to 1983. This contribution would represent 20.7 percent of the $2.15 billion replenishment, including voluntary contributions.

AFRICAN DEVELOPMENT BANK/FUND

The African Development Fund (ADF), was created on July 3, 1973, as the concessional lending affiliate of the African Development Bank (ADF). The African Development Fund is designed to channel resources to the poorest African nations: its loans are generally not extended to countries with a per capita GNP over $400. The United States joined the ADB in November 1976, with an initial contribution of $15 million and contributed a further $10 million in December, 1977. In 1978, an additional $25 million was made available. In addition to the United States, membership in the ADB includes 13 European countries, Brazil, Canada, Japan, Kuwait, Saudi Arabia, and all the member countries of the ADB. Total resources pledged to the Fund amounted to $1.1 billion as of September 30, 1979.

In Fiscal Year 1979, ADB lending amounted to $207.6 million distributed among 22 African countries. This represented an increase of $52.4 million, or 34 percent above the 1978 lending level of $155.2 million. Among the largest borrowers were Upper Volta, Somalia, Egypt, and Sierra Leone.

The largest amounts of ADB lending in 1979 went to finance projects in the agricultural, transportation, educational and health sectors. Agriculture accounted for the largest proportion of lending, ranging from rural development and extension of farming techniques to development of irrigated farming, rehabilitation of plantations, and infrastructural works. It is expected that this particular pattern of lending will continue inasmuch as the possibilities for improving the living conditions in recipient countries depend importantly on agricultural development.

At the Sixth Annual Meeting of the African Development Fund in Abidjan, Ivory Coast in May 1979, the Board of Governors of the African Development Bank approved an amendment to the Charter of the Bank which opens Bank membership to non-African countries. The proposed amendment is now in the process of being ratified by the individual member countries of the Bank. The Administration has strongly supported the efforts of the African Development Bank to expand its base of resources, and has submitted legislation to authorize U.S. membership in Fiscal 1981.

III. B. Other International Assistance Programs

The United Nations system, with its specialized agencies and programs, its regional organizations and international conferences, is an increasingly important mechanism for the support of global development. Over the years, it has assumed a key role in setting the pace and direction for international cooperation in an interdependent world. Its conferences and resolutions often provide for an overall framework of concepts and priorities as well as planning and implementation within which developing and developed countries utilize, transfer, and exchange resources for international development.

As the most universal multilateral system, the UN is a major forum of North-South negotiations, a principal actor in planning, monitoring, and evaluating development assistance and, because of its good offices, expertise, experience and wide-reaching access, a useful conduit for official development assistance.

While the multilateral development banks are the principal, though not the exclusive, source of multilateral development capital, the central UN system is the principal source of multilateral technical assistance to some 150 countries. It has the most comprehensive humanitarian programs, ranging from child care to refugee assistance.

UN sponsored international conferences, especially in the past decade, have focused world attention on such critical common problems as energy, environment and population; spurred action in individual countries as well as world-wide to mobilize resources for development, search for new resources, and husband scarce ones; and supported the struggle of women everywhere to become full participants in development.

Broadly, the term "development" encompasses economic, social, cultural, and humanitarian concerns, to which the UN devotes approximately 90 percent of the assessed and voluntary contributions of the member states. There are some 30 major agencies or programs in the UN family which, directly or indirectly, in major or minor ways, concern themselves with global development. Some of these were in existance prior to the founding of the UN itself, most were established by the General Assembly. Each contributes in a specialized area that affects the developing countries. Some have major developmental responsibilities. Among these, the United Nations Development Program (UNDP) and the United Nations Children's Fund (UNICEF) are the principal UN organs to assist the developing countries and to address directly the world-wide problem of poverty. They, therefore, receive the major share of United States' contributions.

Lead policy and budget responsibility within the USG for these major organizations, along with the UN/FAO World Food Program, the UN Capital Development Fund, the FAO program for the Prevention of Food Losses, the OAS technical assistance programs, and for the, to be established, Interim Fund for Science and Technology for Development, belongs to the International Development Cooperation Agency. For the rest of the UN agencies and programs, the Department of State retains lead responsibility.

The United States' Role and Policies

U.S. support of development assistance through multilateral institutions complements its bilateral programs and enhances American foreign policy objectives. Global development, particularly assistance to the poor countries, is inextricably linked to our security considerations. The amelioration of world-wide hunger, disease, illiteracy and resource depletion to which these UN agencies and programs devote increasing attention, is a direct and cost-beneficial investment in the reduction of tensions and threats to peace. U.S. support of the UN's development programs is one way in which we can shape and influence the changing patterns of global economic cooperation. By strengthening the United Nation's capacity to assist the developing countries and facilitate cooperation among them, the burden of development assistance is shared more equitably among nations, diminishing proportionately the need for greater U.S. contributions.

Both developing and developed countries benefit from the UN sponsored economic cooperation programs. The standards for foodstuffs, developed by the Food and Agricultural Organizations (FAO), for example, are indispensable to the international agricultural trade in which the United States has the largest stake. The International Atomic Energy Agency (IAEA), helps reduce world-wide dependence on fossil fuels, and also acts as a principal promoter of nuclear safeguards and nonproliferation. The weather data collection and related programs of the World Meteorological Organization (WMO) provide invaluable assistance to farmers everywhere, and to the aviation and merchant marine industries. The global protection activities of the United Nations Environment Fund (UNEP) represent a classic example of a threat that no nation, large or small, rich or poor, can tackle alone --the threat of world-wide pollution. These are only a few salient examples of how development assistance, scientific cooperation, education, and research are part of the UN's effort to advance the cause of global development.

While increasing attention is being paid to the urgent needs of the poorest countries, cooperation implies a continuing vigilance to insure that global programs do indeed serve universal priorities and not just the interests of a single state or of a group of states.

Major Programs

Programs which serve primarily development objectives receive the largest share of US contributions to the UN. These are:

The United Nations Development Program (UNDP)

The UN Development Program (UNDP), headed by former U.S. Congressman Bradford Morse is the major international instrument for the delivery of multilateral and bilateral 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 150 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 utilization of funds and a centralized monitoring of program impacts, UNDP implements its projects primarily through the network of UN specialized agencies and programs, enlisting the broad support for financial and human resources found throughout the international community.

UNDP sends teams of UN Specialized Agency personnel from organizations such as FAO, UNESCO, and WHO to combat problems in the areas of agriculture, foresty and fisheries, economic and social planning, industry, transport and communications, employment and social services. To stimulate international private sector interest in developing nations, and thereby expand production and employment through private investment, UNDP experts conduct investment feasibility studies, promote the development of natural resources, and provide money and manpower for program and service. Because of its coordinated programming, dollars channeled UNDP are efficienctly utilized. Through its ability to draw on such a broad range of technical and planning skills, UNDP is able to meet technical assistance requirements on a comprehensive multi-disciplinary basis, as demonstrated by some of its current program activity:

-- UNDP helped set up the 15-country West African Rice Development Association which has successfully produced 20 high-yield new varieties for one-fifth of the region's rice-growing territories;

-- UNDP is helping to establish social security systems in Pakistan which will for the first time provide old-age pensions for more than a million workers;

-- UNDP is contributing to the development of a network of experimental and demonstration farms in Thailand which feature large-scale training of agricultural extension agents and farming experts;

-- UNDP technicians, in conjunction with local manpower teams, are exploring geothermal power resources in Kenya which are designed to attract World Bank and government commitments to building steam driven generating plants.

At the same time that UNDP's program has expanded, the United States share of contributions has declined from 37.8 percent in 1966 to approximately 18.5 percent in 1979.

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD)

IFAD formally began operations in December 1977 as a UN specialized agency with the purpose of assisting the developing countries in their efforts to increase food and agricultural production and with special focus on small farmers and the poorest countries. The United States contributed $200 million of the initial $1 billion funding. A major factor underlying U.S. support was the understanding that the financing of IFAD would be a joint responsibility to be shared by traditional foreign aid donors on the one hand, and the OPEC countries on the other. Actual contributions by the latter group fell short of the 50 percent sought by the traditional donors, but the 43 percent that the OPEC group did commit is still a substantially higher development contribution than the OPEC countries have so far been prepared to offer through other international organizations.

The emphasis IFAD places on small farmers derives from the recognition that the problems of hunger and nutrition are directly associated with poverty; and that unless the welfare and income of the poor are improved in conjunction with production efforts, production alone will not achieve the goal of reducing hunger.

By the end of 1979, IFAD had made commitments totalling about $500 million on 33 projects in 30 countries. Seventy-five percent of this total has been allocated to countries with per capita incomes of $300 or less).

Ten of the projects so far approved involve improvement, rehabilitation or development of new irrigation systems (Bangladesh, Guyana, Haiti, India, Laos, Pakistan, Philippines, Sri Lanka, Thailand, and Yeman Arab Republic). Another 10 projects can be classified as integrated rural development projects (Afghanistan, Bolivia, Honduras, Kenya, Nepal, Senegal, Sierra Leone, Somalia, Sudan, and Tanzania). Four projects focus on providing agricultural credit (Morocco, Nicaragua, Paraguay, and Pakistan). Another four are primarily resettlement schemes (Burundi, Dominican Republic, India and Madagascar): Three are concerned with livestock development (the CAR, Paraguay, and Somalia). One project in Ecuador is directed to strengthening artisanal fisheries and one in Bangladesh to improving fertilizer supply and distribution.

Replenishment of the resources of the International Fund for Agricultural Development will be a major issue in 1980.

The World Health Organization (WHO)

The World Health Organization functions as the coordinating authority on international public health, working to build the strong national health services which 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 such as malaria, smallpox, tuberculosis, and veneral diseases. It has promoted the world-wide 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 under-served rural and tropical areas which are particularly prone to outbreaks of highly communicable diseases. WHO has worked most effectively in developing international standards for 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.

THE UNITED NATIONS CHILDREN'S FUND (UNICEF)

UNICEF, headed by American Henry Labouisse who retired at the end of 1979 (to be replaced by another American, James P. Grant), has maintained over the years the widest name recognition in the United States of all the UN's special programs. It is the only permanent agency within the UN system whose mandate is focused on a single population group. The Fund was created in 1946 to help destitute children in Europe recover from the devastation of World War II. Making the work of UNICEF equally crucial today are population statistics which show that an estimated 40 percent of the developing county inhabitants are under 15 years of age.

Working in more than 108 nations, UNICEF provides direct assistance to programs servicing primary, maternal and childhealth care, water purification, nutritional training, formal and informal education, child welfare services and simple technology for the maintenance of high quality environmental health.

Recent programs activity includes:

-- Funding and personnel training for more than 20,600 village maternal and child health centers, 88,900 primary schools, 500 teacher-training institutions, 5,200 child welfare and day-care centers, and the training of 60,200 primary health workers and 47,200 teachers;

-- In Sri Lanka more than 600 child day care centers have received UNICEF assistance to provide safe drinking water and sanitary facilities for 250,000 children;

-- Working with refugee organizations in Kampuchea, UNICEF has received grants from UN member states including $11 million from the United States to assist in the care of children in the area;

-- A UNICEF innoculaton program in Bangladesh gave 9.5 million children injections, and as an emergency measure, almost the entire population of the Maldive Islands (approximately 125,000) were innoculated againar cholera when that area was under the threat of an epidemic.

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, scientific cooperation, education, training and research. Among these, the salient ones are:

-- 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; the UN Educational and Training Program for Southern Africa which operates scholarships for Africans in minority ruled territories; and, the UN Trust Fund for South Africa which assist, through private organizations, victims of discrimination in South Africa,

-- The UN Decade for Women which supports projects to improve the status of women and increase their participation in the development process,.

-- The UN Capital Development Fund, which is administered by the UNDP, supports small indigeneous development projects not normally within the purview of international lending institutions,

-- The World Food Program which administers food-for-work programs and world-wide food assistance.

- Four OAS assistance programs which are major sources of multilateral technical cooperation in the Western hemisphere: (1) the Special Multilateral Fund strengthens the capabilities of national institutions to meet training and research needs in education, science and technology, (2) the Special Fund Project provides means to OAS member states for joint planning in the areas of education, science and technology, (3) the Special Development Assistance Fund supports technical cooperation programs in economic and social development, (4) the Special Cultural Fund provides assistance to artisans in improving their manufacturing and marketing skills.

Major UN Sponsored Development Conferences in 1979

Two major conferences received particular attention:

-- The World Conference on Agrarian Reform and Rural Development, held in Rome in July, stimulated cooperative measures to eradicate poverty and hunger through major emphasis on food production and integrated rural development, and

-- The UN Conference on Science and Technology for Development, held in Vienna in August, gave impetus to the strengthening of indigenous capacities in the developing countries to create, adapt, and use science and technology for development. As a result of the Conference, the UN is establishing an Interim Fund for Science and Technology for Development managed by UNDP to provide an international focal point to assist in this process.

III.C. U.S. Bilateral Assistance

U.S. bilateral assistance is conducted through several programs administered by different agencies: development assistance programs, administered by the U.S. Agency for International Development; supporting assistance under the Economic Support Fund (ESF), allocated by the State Department and administered by AID; the PL 480 food aid program, jointly administered by the Department of Agriculture, AID, and the Department of State; and the investment guaranty and insurance programs of the Overseas Private Investment Corporation (OPIC). In addition, the Peace Corps, whicl remains

TABLE 4

U.S. Bilateral Assistance -FY 1979 ($ millions, Commitments)

	Grants	Loans	Subtotal
Economic Support Fund	1,229.5	713.0	1,942.5
AID Development Assistance	1,164.6	412.7	1,577.3
PL-480	619.9	754.5	1,374.4
Peace Corps	104.1	0.0	104.1
Total	3,118.1	1,880.2	4,998.3

	Investment Insurance and Guaranties
OPIC	
Insurance	803.0
Loans & Loan Guaranties	52.8
AID	
Housing Investment Guaranties	145.0
Productive Credit Guaranty Program	4.5
Total	

located in ACTION, provides assistance through volunteer programs. Through this range of activities the United States furnished in FY 1979 about $4,998.3 million in loans and grants and $331 million in insurance, loans, and loan guaranties for private investment in LDCs.

Recent Development

Significant developments in bilateral assistance over the past year include:

-- Implementation of the system of Country Development Strategy Statements and Indicative Planning Allocations;

-- Greater priority to developing countries which demonstrate a commitment to equitable development and human rights;

-- Continued evolution of the "basic needs approach", including greater focus on employment;

Increased attention to energy production and conservation in developing countries;

-- Efforts to improve the efficiency as well as the effectiveness of bilateral assistance programs, including the impact of an expanding New Directions program, further decentralization of AID decision-making, and improved AID/Peace Corps collaboration collaboration.

The Country Development Strategy Statement

In 1979, AID implemented a major new component of its assistance programming process - the Country Development Strategy Statement (CDSS).

Section 102(b)(4) of the Foreign Assistance Act provides that "development assistance... shall be concentrated in countries which will make the most effective use of such assistance to help satisfy basic human needs of poor people through equitable growth, especially in those countries having the greatest need for outside assistance." To implement these allocation criteria, the legislation instructs AID to devise means for assessing the progress and commitment of recipient countries toward achieving equitable growth.

In response to this mandate, A.I.D. has developed procedures for evaluating country commitments and progress. These evaluations are based on cross-country analysis of quantitative indicators and more qualitative appraisals by AID field missions and AID/Washington.

The first CDSS reviews occurred early in 1979 and formed the basis upon which FY 1981 budget decisions were made. This process promises to become increasingly important as a method for allocating resources, and achieving U.S. development policy assistance objectives.

One of those objectives is greater donor coordination. Improved coordination is particularly important where, because of the relatively small size of the AID effort, it is difficult to effect policy changes unilaterally. Missions have been urged, therefore, to emphasize in the CDSS the complementarity of our aid instruments with those of other donors.

In addition, field missions have been advised that the CDSS is to serve not only AID purposes, but also the broader objectives of IDCA. The CDSSs, therefore, will take account of all elements of U.S. policy which have an impact on a country's development including trade, monetary policies, etc., as well as U.S. assistance through the international banks.

Programs Trends

1. Country Allocations

Since the outset of this Administration, President Carter has stressed the importance of human rights as well as the economic needs for providing United States support for poor people in developing countries.

Much of the human rights emphasis in the past few years has naturally been restrictive -- reducing or eliminating bilateral development assistance and opposing loans in the multalateral development banks to those nations that most flagrantly violate the human rights of their citizenry. But the President and other Administration officials have also stressed affirmative recognition of nations that have strong human rights records coupled with sound development plans that are being successfully implemented.

The AID development assistance budget reflects these priorities. It supports increased bilateral aid to countries that are recognized as having strong records in human rights and development performance.

Over the coming months, AID will be refining the criteria for selecting these countries and will continue to monitor the performance of all countries to ensure that the countries most able to utilize external assistance effectively are priority recipients of development aid.

In addition, the totality of U.S. bilateral development assistance flowing to the world's poorer regions continued to increase at a substantial rate, and the concentration in poorer countries is expected to continue in the future. Between the FY 1975 program, and the program proposed for FY 1981, the proportion of assistance allocated to those countries that meet the poverty criteria for eligibility for assistance from the International Development Association (IDA) increased from 68 percent to 84 percent. The present IDA cut-off is an annual per capita income of $625 or less. 1979 also witnessed the first full year of the resumption of bilateral assistance to India, which has the largest concentration of poor in the world. Aid levels to India are large and rising steadily; $60 million in FY 1978 and $90 million in FY 1979, with $111 million projected for FY 1980.

(In absolute terms, however, the Near East region continues to receive a preponderant amount of U.S assistance, as it is the largest single recipient of Economic Support Funds. Egypt and Israel alone will receive $750 million and $785 million respectively in new assistance in FY 1980.)

During the coming years A.I.D. intends to continue the policy of shifting resources into the low-income countries. Programs for all geographic regions will increase also, but in both dollar and percentage terms, those of Asia and Africa, which have the largest numbers of poor countries and poor people, will rise at a faster rate. In Latin America, the poorer countries are emphasized. The assistance of the middle-income nations is projected to rise from $9 billion to $23 billion by 1985. A major source of official capital flows to these countries is and will continue to be the multilateral development banks, which act as intermediaries for channeling private market resources to the middle-income nations for long-term development. Reliance on the multilaterals complements existing Executive Branch and Congressional policy to concentrate bilateral U.S. assistance, particularly concessional flows, on low-income countries. This policy reflects a recognition that concessional assistance resources are scarce and that the low-income countries have limited access to private borrowing, face severe constraints on their ability to service external debt and are, therefore, heavily dependent on official concessional flows for their development. The Administration recognizes that many middle-income countries continue to face difficult development problems. Nevertheless, bilateral assistance to the middle-income countries will increase in the future only if total levels of such assistance rise sufficiently to permit continued concentration on low-income countries. At present, close to 70 percent of the middle-income countries' medium-and long-term capital flows come from the private market flows to developing countries. It is essential that private direct investment flows to middle-income (as well as the poorest) countries increase in the 1980s.

2. Evolution of Basic Human Needs Policy

The past year also witnessed further development in our thinking about appropriate assistance activities in support of developing country efforts to promote increased satisfaction of basic needs through equitable growth. In 1979, the DCC issued a policy paper which pointed to an evolution in our perceptions of how to achieve sustainable improvements in the lives of the poor, and drew implications for development assistance programming and policy. 1/ The analysis in this paper focused on a prevalent, but false dichotomy that artifically separated efforts to achieve economic growth from efforts to promote increased satisfaction of basic needs. The paper noted increasing recognition that growth objectives were not separate from basic needs

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1/ DCC Policy Paper, "Evolution of the BHN Concept" March 1979.

objectives, but rather that the basic needs approach was a statement about what kind of growth ought to be achieved. More specifically, a concern with meeting basic needs would point to a pattern of economic growth that provided for rapid expansion of productive employment opportunities to generate increased income for the poor, as well as adequate, accessible supplies of the goods and services essential for meeting basic needs. These considerations provide operational criteria for evaluating foreign assistance activities while simultaneously discrediting the tendency to automatically identify certain sectors (and activities) as "basic human needs" and others as "non-basic human needs."

3. Sector Emphasis

In the future, agriculture, rural development and nutrition programs will continue to account for more than half of AID.'s total functional account development assistance, with funding rising to $729 million in FY 1981. Population planning programs will also grow substantially in FY 1981, maintaining a 15 percent share of the functional assistance budget. The growth in the share attributed to selected develop-ment activities in FY 1981 reflects increasing emphasis on energy, and support for private voluntary organizations.

AID. population programs emphasize family planning services and contraceptives for the rural poor through paramedical workers and the private sector. Also, in response to Section 104(d) of the Foreign Assistance Act, AID stresses the importance of population impact in the design of programs in agri-culture, rural development, health and education.

AID programs in energy especially renewable energy, have been expanding in the last several years. As discussed elsewhere in this report, the energy problem and its financial and environmental consequences will be a major challenge for at least the next two decades. Solutions to LDC energy problems may mean the difference between continuing economic development, stagnating or backsliding. It is also in the interest of the United States that other nations meet their needs for energy, reduce their dependence on oil, expand renewable technologies and find substitutes for fuelwood.

In addition, the President has recently instructed AID to expand programs in the areas of forestation and natural resources conservation. New initiatives in these areas are expected to strengthen country capacities in planning, training and natural resource management, to demonstrate the need for environmental management policies and, at the local level, to foster stablization of land, watershed improvements and better fuel supply.

With AID help, PVOs have expanded their capacity to implement development activities at the community level. PVOs are an important means of expanding development programs at relatively low cost. In some places such as the Congo, Mauritius, Comoros and Pacific Islands, we hope that intermediaries financed in part by AID can carry out a significant portion of the more traditional AID role. OPIC has also inagurated a program of financial assistance to PVOs.

Furthermore, it is proposed that the Housing Guaranty Program which is approaching $1.6 billion, be increased by an additional $200 million in FY 1981. Most projects financed by this program are designed to upgrade slums and provide serviced sites and potable water, electricity and community facilities rather than the traditional "housing" projects of the past. The program is addressed to the shelter needs of the below-median income population in the poorer developing countries.

EFFICIENCY AND EFFECTIVENESS

AID has continued to search for more efficient ways of carrying out development programs which will permit the expansion of the program with fewer total personnel. In so doing, the Agency seeks ways to economize on personnel while not detracting from the quality of U.S. assistance programs. AID is, consequently, examining the possibilities for eliminating operating units, eliminating certain functions or carrying out functions in ways which use less direct-hire personnel. Possibilities for conserving staff both in Washington and the field are being reviewed. As a part of this effort, field missions have provided, as a part of their country strategy submission, comments on possible alternative means of carrying out their programs in ways that would require less staff.

Alternatives being explored by AID include the following:

- -- increasing reliance on intermediaries -- LDC nationals, private voluntary organizations, the Peace Crops, universities, and other contractors, consultants, and grantees -- where it is possible to do so without sacrificing program effectiveness;

- -- pursuing opportunities to finance larger New Directions projects, which can have a substantial impact on the poor, while making efficient use of Agency staff and continuing to fund, smaller experimental activities are more experimental in nature as well.

- -- experimenting with relatively small programs in some countries that would not require a resident AID mission, but which could be monitored from a mission in a nearby country;

-- identifying opportunities to replicate successful New Directions activities, which can reduce the burden of design, analysis, and documentation of new projects;

-- expanding our support for broader sector or subsector programs aimed at improving the well-being of the poor, especially in countries with strong commitment to equitable development;

-- examining projects and programs to ensure that they are not unduly staff-intensive in light of the expected development benefits;

-- taking steps to concentrate programs in each country, both functionally and geographically;

-- exploring ways to phase out terminating programs faster;

-- taking steps to improve collaboration with other donors, including multilateral banks and international organizations, which will permit AID to rely more heavily on their project design and implementation capabilities;

-- examining a number of functions, both in Washington and in the field, particularly in the areas of project design, approval, and implementation, to determine if there are less staff-intensive ways of carring them out.

The Peace Corps continues to stress volunteer motivation and living and working with the poor directly at the grass roots level. Both AID and the Peace Corps recognize the benefits to be gained from improved cooperation.

In mid-1979 there were 123 cooperative AID/Peace Corps projects in 38 countries in the implementation or planning stage. Sixty percent of all present and planned projects were in Africa whereas prior to 1977 concentration was greater in the Near East, and Latin America and Caribbean regions. While the major sector of concentration in the pre-1977 period had been education (43 percent of all past projects), 54 percent of planned and current projects emphasize food production and health/nutrition. Also, Peace Corps Volunteers (PCVs) have been incorporated into a small number of AID funded projects with varying degrees of success.

In addition to progress in the field there are also some examples of better communication between the Washington staffs. A Peace Corps/AID liaison committee has been established with office representatives from the respective agencies. They have met several times on a formal basis and occasionally less formally.

Peace Corps desk officers and area directors participated to a limited degree in the AID Country Development Strategy Statement (CDSS) reviews. In the same vein, AID desk officers and office directors were invited to the Peace Corps Country Management Plan and Project reviews. Guidance for AID's 1980 CDSSs include many references to the desirability of joint projects with the Peace Corps.

AID has established a personnel system which places emphasis on utilizing foreign service officers in policy, program and management positions in its headquarters office in Washington, D.C. The Agency believes that it is essential that most of its middle and senior level staff in Washington have significant overseas experience.

To further improve the efficient administration of foreign assistance, AID has further decentralized its operations, substantially increasing the authority of its field missions to approve and authorize loans and grants. Now, projects of up to $5 million may be approved by Mission Directors after receiving preliminary approval in Washington. Procedures for approval of projects and other activities carried out by the private voluntary organizations, which are becoming an increasingly important part of the Agency's portfolio, have also been considerably simplified and expedited.

EVALUATION

A.I.D. has traditionally had a decentralized evaluation system in keeping with the philosophy that evaluation is a tool that should be kept on or near the workbench of the project manager. This approach is still considered valid for routine project evaluations, the bulk of which continue to be done by the concerned missions, geographic bureaus and technical offices with a degree of oversight from the central Office of Evaluation. Over 500 such evaluations are projected for FY 80.

There has been increased central evaluation activity, however, in several areas.

The Office of Evaluation's Studies Division is staffed by social scientists who perform, or review and help select staff for special evaluations the results of which are of broader interest to the Agency than the individual project or program under immediate consideration. The Studies Division is also responsible for coordinating a new series of impact evaluations mandated by the Administrator. Twenty to thirty of these evaluations will be done annually. They are largely performed by AID staff with broad project experience. Three weeks are typically spent in the field where Washington personnel are supplemented by local social scientists and assistants. A 15-page report is produced. Results on the handful of these evaluations performed to date are encouraging both as to this evaluation technique and to the results of the basic-human-needs approach AID has emphasized in recent years.

AID is attempting to make its evaluation efforts more rational and meaningful but less duplicative. This endeavor is proceeding on two major fronts: 1) a coordination of the regional bureau evaluation efforts--those 500-plus ordinary evaluations and another 200 special evaluations in FY 80--to attempt to increase quality, relevance and comparability while reducing redundancy and pro forma efforts, as well as reducing the total number of evaluations performed by overburdened field missions; 2) secondary evaluations to distill the essence, the "lessons learned" by the totality of the AID's evaluative efforts. The Evaluation Office also provides information on evaluation results for project designers and on methodology to evaluators.

II.D. The Overseas Private Investment Corporation

The Congress has mandated that the Overseas Private Investment Corporation "mobilize and facilitate the participation of private U.S. 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 the Corporation's programs -- political risk insurance, direct loans and loan guaranties, feasiblity study assistance, and investment mission -- 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 complement or are compatable with other development assistance programs and projects of the United States and other donors. The development benefits of OPIC-assisted projects include increased employment, transfer of skills and technology, foreign exchange benefits, stimulation of local enterprises, production and improved distribution of food, generation of host-government revenues, and others. OPIC operates all of its programs on a self-sufficiency basis and requires no appropriations from the Congress.

Reorganization Plan No. 3 of 1979 provides that the U.S. Trade Representative shall serve on the OPIC Board as the Vice Chairman. These changes reflect and strengthen the understanding that OPIC clientele are in the area of foreign trade and international business.

The Overseas Private Investment Corporation Amendment Act of 1978, signed into law by President Carter on April 24, 1978, requires OPIC to prepare a development impact profile for each investment project assisted, and an annual Development Report for Congress. The Report for 1979, in preparation at this time, will set forth the actual and anticipated developmental benefits of projects encouraged in the past year, and evaluate the extent to which OPIC operations complement or are compatible with the development assistance programs of the United States.

Since OPIC programs act as a catalyst to private sector activities, the ability of OPIC to increase the flow of investment to the developing nations, thereby furthering development, is directly affected by a variety of external factors which also, and more directly, influence private investment decisions. For example:

-- The prospects for commercially attractive (profitable) business investments vary from country to country depending on the size of markets, availability and/or world market price of raw materials, transportation problems, availability of foreign exchange, etc.

-- Perceptions concerning business prospects, the future course of political events, etc., change drastically over time.

-- Perceptions of foreign investment potential and risks in developing countries differ from one prospective investor to another; similarly, corporate business plans, financing needs, marginal capability, and other factors vary widely from one prospective investor to another.

Each OPIC program is designed to overcome one or more specific disincentive or obstacle to increased foreign investment:

1. Political risk insurance. U.S. investors considering an LDC 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 as much as they can to another entity. The availability of OPIC insurance can make individual investment opportunities more attractive from a risk management standpoint. The insurance program is used by almost every OPIC client, large and small, and in all of the approximately 90 countries in which OPIC is active.

The effect of OPIC insurance usually cannot be isolated from other factors, even when its availability is one of the factors that goes into making a judgment that a commercially attractive venture is worth pursuing. In part, this is because the insurance complements rather than displaces normal commercial considerations. Its role is analogous to that of fire, casualty, or marine insurance, which provides substantial certainty to business activity by converting the potential of very large business losses into a comparatively small fixed annual expense.

3. Direct loan and loan guaranties. Like OPIC's insurance program, the availability of long-term OPIC financing and guaranties removes a barrier to overseas investment in developing countries by U.S. entrepreneurs and lenders. Direct financing is only available for projects sponsored by U.S. small business and cooperatives or PVOs. In contrast to the insurance function, which is often the only source of long-term political risk coverage for U.S. investors, the finance program is a more limited supplement to customary sources of long-term financing which today include foreign and domestic commercial banks, local and regional development banks, the International Finance Corporation, U.S. Export-Import Bank, and comparable institutions of other industralized countries.

Through its direct loan and loan guarantee facilities, OPIC can from time to time offer unique assistance to the development of U.S. sponsored projects. This may occur when the borrower's bank has exceeded internal country limits or when U.S. banks generally are refusing political risks which OPIC may consider to be within the scope of its statutory directions. In other situations, particularly for smaller businesses, a U.S. bank not accustomed to foreign lending may be unable to accomodate a regular domestic customer for whom OPIC can provide financing. A U.S. lending institution without local host country branches may be unwilling to incur the expense of negotiating a loan which OPIC can process despite the relatively high cost of doing so. In some very small investment projects, OPIC assistance in establishing adequate management controls makes a significant contribution to the succcess of the venture. The availability of the finance program as a back-up facility serves to broaden the scope of consideration of U.S. investors willing to look at overseas commitments.

3. Investment missions/feasibility study assistance: These programs are designed to overcome obstacles to investment created by a lack of information about or familiarity with project opportunities in foreign countries. The investment mission program helps to introduce and interest potential U.S. investors in projects/countries in which they might otherwise have little or no interest by providing a "high-level" introduction to a foreign country, its officials and business community in a short period of time.

   By sharing the potential financial risk or cost of a feasibility study or pilot project, OPIC's feasibility study assistance provides a financial incentive to investors to allocate some of their own corporate personnel and finances to a project or country in which they might not otherwise have sufficient interest to do so. Each of these two programs is designed to encourage companies to place a higher priority on investigating business opportunities in unfamiliar LDCs rather than expending their limited corporate resources on projects in the more familiar developed countries. Smaller businesses, and businesses new to foreign investment or unfamiliar with a particular overseas region tend to be the primary users of these programs.

During FY 1979, OPIC assisted 83 new or expansion projects undertaken by U.S. companies involving $804 million of investment. Of this amount, the total U.S. investment insured by OPIC was $803 million. OPIC loans and guaranties totaled $53 million. Some of the impact, by geographic region, is as follows:

Table 5
Impact of OPIC Loans and Guarantees

	NEAR EAST	ASIA	AFRICA	LATIN AMERICA	TOTAL
New Foreign Exchange Benefit (Predicated Annual Average for the First Five Years) (Thousands of Dollars)	-0-	36,530	14,247	534	51,311
Local Labor Employed (First Five Years)	1,629	10,017	2,139	3,314	17,099

In the years ahead, means of enhancing OPIC's ability to stimulate U.S. investment in developing nations will be explored.

4. Minerals and energy: In the Fiscal Year 1977, OPIC announced a broadened protection for minerals and energy projects by offering coverage during the exploration, production, and processing phases of operation and by conducted special seminars to acquaint the business community with the new programs. A principal objective of the program is to help oil-importing countries develop their petroleum resources, thus lessening their dependence on imported oil and serving the U.S. national interest by opening up new sources of supply.

IV. DEVELOPMENT ASSISTANCE PRIORITIES

IV.A FOOD AND AGRICULTURE

INTRODUCTION

During the 1970s, it became increasingly clear that the key to poverty alleviation and equitable growth for most Third-World countries lay in more rapid rural development and increased agricultural productivity. The vast majority of the poor live in rural areas and depend on agriculture for their livelihoods. Increased agricultural productivity is necessary for providing additional food for the non-farming poor, for saving scarce foreign exchange which can be used to finance investments in economy-wide development, and for meeting the needs of growing populations.

The developing countries and donor agencies increasingly recognize the crucial role of agriculture and have been allocating a growing proportion of their investments to rural development projects. In many countries major economic reforms have taken place aimed at increasing the incentives for farmers to increase production. Irrigation has spread and new miracle seeds have been widely distributed. However, the impact on these new directions has not yet been completely felt. For the 1970s as a whole, agricultural production in Third-World countries increased on average by just under 3 percent per year. While this increase is substantial and not markedly below previous experience, it is far below what many expected. The International Development Strategy for the Second Decade and the World Food Conference both set a 4 percent target for average growth rates.

Hunger and malnutrition continue to be severe global problems. Food prices rose rapidly during the 1970s at the same time that population pressures were creating rapidly growing classes of urban and landless poor who could not afford to feed themselves fully. Although it is not possible to measure exactly the degree of malnutrition, most studies indicate that between 500-750 million people subsist on less than adequate diets. The costs in terms of disease, suffering and economic productivity are staggering.

These problems have long been a major concern to the American people. Beginning in the 1950s, our development assistance programs have provided food aid (Food for Peace) and assistance for increased agricultural productivity. Since President Kennedy, all presidents have supported such assistance programs. Most recently, President Carter has welcomed the recommendations of the Presidential Commission on World Hunger and reaffirmed his commitment to reduce world hunger.

We are not alone in this effort. During the last decade, world attention has turned increasingly to problems of hunger, food, and agricultural productivity. In the aftermath of African famines, the World Food Conference was held in Rome in 1974. Multilateral and bilateral food aid and agricultural assistance have been increased. New organizations such as the World Food Council and the International Fund for Agricultural Development (IFAD) have been created.

INTERNATIONAL FOOD SITUATION

In the 1950s, the developing countries (as a group) were virtually self-sufficient in food. By the early 1970s, they imported 15-20 million tons of major food staples, half in the form of food aid provided principally through the U.S. Food for Peace Program. During the 1970s, the deficit grew significantly with wide year-to-year fluctuations in response to varying harvest levels. In 1978, the most recent year for which statistics are available, most seriously affected developing countries had cereal imports of 16 million tons. Despite recent bumper harvest in some large countries and relatively large stockpiles of grains in the world, the long-term food prospects in developing countries remain uncertain. Recovery from the crisis conditions of 1972-73 should not lead us to assume that world food problems have been resolved. The fundamental problems discussed in the preceding section prevailed long before 1972. The world-wide return after 1974-75 to more ample food supply masks the imperfection of the world food system.

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. Growing populations have reduced the per capita growth rate of food production to less than one percent on average. Moreover, since low-income economies spend a large proportion of incremental national income on food, per capita demand is steadily increasing throughout most of the Third World.

Many international organizations and private research institutes have estimated the magnitude of the food deficit for the 1980s. Although the estimates vary widely, they all conclude that the problem is going to increase.

The most widely cited projection, prepared by the FAO for the World Food Conference, estimates that the average annual domestic grain deficit in developing countries could reach 85 million tons per annum by 1985. More recent projections made by the International Food Policy Research Institute (IFPRI) indicate that the shortfall in staple food crops will be in the 120 to 145 million ton range by 1990; this is over three times the shortfall of 37 million tons in 1975, a relatively good production year. The U.S. Department of Agriculture projects, as its less favorable alternative, that imports of food grains by developing countries will increase to between 49 and 71 millions tons by 1985. This range compares with 18 million in the 1970 base and recent levels of 30-35 million tons.

More than two-thirds of the total deficit is projected to be in countries with per capita GNP of less than $300, rising from 12 million tons in 1975 to 70-85 million by 1990 according to FAO projections. Just to maintain consumption and thus nutritional levels at the 1975 per capita level would require 35 million metric tons more than projected production. Even if exportable food surpluses can be produced at sufficient levels in other parts of the world, most of the food deficit countries are not likely to have the foreign exchange to import such quantities commercially on a substantial basis. As shown in Table 1, the food deficit problem will continue to be concentrated in Africa and Asia.

TABLE 6

DEVELOPING COUNTRIES: BALANCE IN MAJOR STAPLE FOODS, 1975 and 1985

	1975 DEFICIT (estimated)		1985 DEFICIT (projected)	
	Million Tons	As Percentage of Consumption	Million Tons	As Percentage of Consumption
ASIA	9	4.5	20	7.2
NORTH AFRICA & MIDDLE EAST	10	15.9	15	19.8
SUB-SAHARAN AFRICA	2	3.7	14	16.8
LATIN AMERICA	--	--	--	--

NOTE: Major stable foods are here defined as unmilled rice, wheat, maize, sorghum, millets, oats, barley, rye, mixed grains, root crops, pulses, and groundnuts.

-- Negligible.

SOURCE: Based on "RESEARCH REPORT NO. 2", page 44 (Washington International Food Policy Research Institute, 1977)

A first 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.

To what extent will developing countries be able to import needed amounts of food on commercial terms? Countries differ with respect to importing capacity. At one end of the spectrum are OPEC and the newly industrializing countries, including South Korea and Taiwan, with growing industrial capacity and export earnings. This group is likely to have ample foreign exchange, and will continue to meet their needs with commercial imports.

At the other extreme are the low income, food deficit countries of Asia and Africa. This is the group where the long-term outlook for meeting the nutritional needs of the population remains extremely grave. The recent food gap was small - only 12 million tons in 1975 -- but it is projected to rise to 70-85 million tons by 1990. When the costs of these imports are compared with the countries' prospective foreign exchange earnings, it quickly becomes clear that commercial imports of this magnitude cannot be financed, without sacrificing growth prospects.

AGRICULTURAL DEVELOPMENT

In low-income countries of Asia and sub-Saharan Africa about 80 percent of the population is rural and about 40 percent of national income is generated by agriculture.

Increased productivity in agriculture can:

-- provide additional employment and income for the poor;

-- generate foreign exchange revenue through exports and reduced imports;

-- provide economic surpluses to further industrial and other development programs.

But the problems that need to be addressed in accelerating food and agricultural production are complex and intricately interwoven with a host of socio-economic issues. The bulk of the poor in the rural areas of the Third-World are the landless and the small farmer. Spurred by fast population growth, a limited physical resources base in many countries, use of capital-intensive farm production technology, rigidity and insecurity in tenancy systems, and laggard employment opportunities in the non-farm rural and in the urban sectors, the number of landless people is estimated to be growing rapidly. Programs designed to benefit these poor must be put in the context of overall rural sector growth and economy-wide development; needed investments in agriculture are not divisable into target groups. Resources such as land and water must be managed *in toto*.

Thus agricultural development requires across the board productivity gains. While ensuring that small farmers and tenants have access to modern technology and inputs, the potential for additional employment should not be lost by too much reliance on labor-saving farm equipment.

The crucial role of women is also becoming more evident. Partly as a consequence of migration of men to urban areas, more rural families are headed by women. They assume a disproportionate burden of farming, wood gathering, small rural manufacturing, as well as traditional household chores. Effective development programs will require expanded access to credit, education, and employment of women.

Rural energy problems are also becoming a more severe constraint on increased agricultural productivity. Rising prices of commercial fuels are raising transportation and fertilizer costs, and thus reducing the unit profits to farmers on their production. And the heavy use of firewood in many parts of the world leads to loss of forest cover with severe environmental consequences.

Significant progress has been made in agricultural production technology but, until recently, tropical products and especially tropical food staples have received inadequate attention in agricultural research budgets. In countries where technology has been available, inadequate or non-existent institutions, lack of qualified personnel, and low overall educational levels have made the effective dissemination of existing technology very difficult. The lack of physical infrastructure has also added to the difficulties of assuring producers, not only access to technology and modern inputs, but also to markets to sell whatever surplus they may have produced.

An important key to agricultural development is permitting the market place to determine the price producers receive for their commodities. Unfortunately, price has not been permitted in many cases to offer sufficient incentives to increase agricultural and food production. Finally, financial resources, both for investment and working capital, have been a significant constraint. In summary, what one sees are economic systems, where defective or inadequate components raise multiple obstacles which inhibit the rural economy from utilizing available resources more effectively.

AFRICA

According to the Food and Agriculture Organization (FAO), only 12 countries in Africa increased their agricultural production per capita during the decade compared with 31 countries where per capita domestic supplies decreased. Thirteen countries within the latter group also experienced negative rates of overall agricultural growth. Although no firm data is available to us on 1979, it is known that drought in Southern Africa decreased coarse grain production by more than 30 percent below that in 1978.

A common characteristic of countries in sub-Saharan Africa is their predominantly rural character. Most of the work force (60 to 90 percent) and around half of output usually is in agriculture. These are mainly small, open economies with most of the rural population cultivating primary agricultural exports: cocoa, coffee, cotton, oil seeds, palm oil, sisal, and tea. Export earnings based on these commodities are highly vulnerable to wide price fluctuations.

Agricultural development is constrained by:

- -- inadequate R&D on root crops;
- -- inadequate extension services;
- -- lack of economic incentives for agricultural investment, especially farm-gate prices held below world market levels;
- -- high incidence of disease attacking man and livestock;
- -- poor soils and scanty water supplies;
- -- abundant free land, leading to practice of slash and burn farming methods;
- -- ecology problems related to loss of tree coverage;
- -- women's lack of access to economic resources;
- -- inappropriate use of labor-saving equipment.

The distinctive and varied nature of climate and socioeconomic environments makes it difficult to introduce technologies from elsewhere. This applies particularly to the biological and chemical innovations needed to increase yields, introduce intensive and continuous cultivation, and replace slash and burn systems with more productive methods of maintaining soil fertility.

Since much land is in pasture, animal products can effectively complement crop production. The fuller development of livestock can play an important role in reducing malnutrition and provide additional export opportunities. The main drawbacks to increased livestock production are diseases, low quality of stock, and poor management of lands.

In addition, government policy has frequently been counter-productive. Prices for both food and export crops such as coffee and cocoa, have been set so low that increased production is discouraged, with adverse consequences for agricultural development.

Of course, there are exceptions. Some governments have supported agricultural development and created an environment in which smallholder cultivators have flourished. This is shown by the rapid growth and diversification of agriculture in Ivory Coast (both for export and domestic consumption) and the parts of Kenya where there has been a successful spread of tea and hybrid maize cultivation among smallholders. Elsewhere large capital-intensive schemes have been emphasized at the expense of broadly based smallholder development. Examples include the state farm in Ghana in the 1960s and the large irrigation schemes in Sudan. The inefficiency of parastatals and state-sponsored marketing cooperatives has lead typically to a widening of transport and marketing margins at the expense of farmers. Other considerations adversely affecting farm price incentives have been the perennial pressure for cheap food in urban centers, and ambivalence about letting supply respond to world prices also adversely affects farmer incentives.

ASIA

In Asia, a similar problem exists though regional performance was better (agricultural production in the region grew at 2.7 percent per year during the 1970s, slightly above population growth rates). However, great disparities are evident among countries. All nations in South and Southeast Asia, with the exception of Thailand and Malaysia, experienced declines in per capita agricultural production from 1970 and 1978. In Nepal, Bangladesh and Indonesia, the growth rate was less than two-thirds of population growth rates. In some countries, such as India, good crops in the latter years of the period allowed building of grain reserve stocks. However, as of July 1979, the FAO forecast a sharp fall in cereal production in India in 1979 although increases were expected for most other products.

The agricultural expansion which began in the 1960s with the introduction in Asia of new seed varieties, the Green Revolution, has slowed down. Recent performance is well below the potential of the region, given its existing infrastructure and technological conditions. The technological advances made possible by the Green Revolution have not yet been exploited fully. The World Bank estimates that with just better management of existing infrastructure and technology, agricultural production in Asia can grow at three percent per year during the 1980s.

In some countries, land is a major problem and ways must be found to increase yields. In other areas, yields are already quite high and new lands must be opened for cultivation. For example, in Indonesia only one-half the potentially cultivable land is now utilized. Yields are high and cultivation is concentrated in a few locations, principally in Java. Additional production will come mainly in new areas.

On the other hand, land is scarce in South Asia and yields are very low. Increasing yields will require: improved crop management through increased density of planting, proper spacing, better seeds, tilling, weeding, etc. These alone can push yields up 10-20 percent in rainfed lands and 25-50 percent on irrigated lands. Further yield increases will require multiple cropping, increased irrigation, fertilizer and pesticides.

In India, only one-quarter of the cultivated land is now irrigated. Another quarter is potentially irrigatable. Although irrigation is more wide-spread in Pakistan, further improvements can be gained by better water management and increased ground water development. In Bangladesh, water control is a major problem. Throughout South Asia, consolidation of small, fragmented land holdings could be an important means to increase production. This has long been a governmental objective, but in practice has been very difficult to implement.

LATIN AMERICA

In the middle-income countries and Latin America, the major issues in agricultural development are:

- -- to sustain a rate of growth balance with expansion of other sectors, taking account of rising populatons;
- -- to ensure that the pattern of agricultural development makes a strong impact on rural poverty, indirectly easing pressures for rural-urban migrations.

Although agricultural growth has generally been faster than in poorer countries, much of the growth has been in commercial farming, often with little impact on poverty. Differences in income levels within agriculture are at the heart of the rural poverty issue in such countries as Brazil, Malaysia, Thailand, Turkey and Ivory Coast. Sustaining rapid agricultural growth in the Middle-Income LDCs will require:

-- increase in cultivated land;

-- substantial investment in transportation, power and irrigation;

-- more effective R&D and extension services;

-- policies to encourage agricultural investment, including price returns, access to credit by poor farmers and women;

-- land reform.

INTERNATIONAL ASSISTANCE

International assistance to agricultural development and food production has played and continues to play a critical role in assisting developing countries to increase food production and consumption. Assistance allows recipient countries to purchase otherwise unaffordable technology, agricultural inputs, institutional experience and training, all critical needs to permit faster agricultural and rural development.

For the past several years, this has been the aim of a large share of bilateral and multilateral assistance programs. Many indications exist which highlight the international community's full awareness of the need to increase food production. The Congressional New Directions for AID, the IBRD Rural Development Policy, the policy guidance of the OECD Development Assistance Committee, 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 elements of such an overall policy objective.

The relative importance of agriculture in bilateral and multilateral aid allocations has been rising in recent years. In 1978, total commitments (DAC, OPEC, and multilateral) to LDC agricultural development were $7.7 billion, a threefold increase over 1973, representing almost a doubling in real terms taking account of inflation. This represents a much greater increase than assistance to other productive sectors. As a share of DAC bilateral aid, assistance to the agricultural sector doubled in this period to over 16 percent, of which two-thirds went to low-income countries (under $400 per capita income). And 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. Six hundred million was allocated for FY 79, an increase of 12 percent from FY 78. About one-third of this is used for the development and diffusion of new technologies and another one-quarter for marketing, storage, input supply, and credit. The remainder is spent on rural infrastructure, planning, and support for local institutions.

U.S. 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. This reflects either the size of a project requiring pooling of resources from several donors, a complex activity needing inputs from different sources with different comparative advantages, or a high risk activity where the recipient government and several donors agree that success is more likely and participation optimized if several parties undertake the activity jointly.

This 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 U.S. alone provided about 6 million tons of grain through the P.L. 480 program and through contributions to the World Food Program (WFP). Other donors provided an additional 3 million tons. Food aid has not only served to fill serious food gaps resulting from emergencies but it has also been targeted to support other development activities. Under Title II and through 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 not only have added to a country's total supply but have been extensively used to stimulate mobilization of domestic resources for investment in agriculture. Fully 75 percent of Title I sales are directed to the least developed.

Other programs have approached the food problem by directly addressing other aspects of the problem of malnutrition. Besides ability to buy minimum food requirements, nutritional status is also determined by dietary practices, especially for children and pregnant or lactating women, cooking methods, intra-family food distribution, child feeding practices, etc. Several donors are providing assistance in nutrition education, food fortification, nutrition planning as well as in programs designed to attack specific nutrient deficiencies such as lack of vitamin A which causes blindness. A.I.D. is the largest single donor providing technical assistance in the area of improved nutrition. The UN system has been working in nutrition surveillance and planning and on problems with vitamin A. UNICEF has been especially active in outreach programs aimed at disadvantaged children and so have been many PVOs. The World Bank has funded some large scale projects and has taken the lead in attempting to integrate consumption and nutritional considerations into agricultural production and rural development projects.

The bulk of AID's assistance, however, has gone into rural development programs which, for the past several years, have been increasingly focused on the rural poor. AID, under the New Directions policy, has taken a lead in this type of orientation. The Agency has redirected most of its program and new portfolio to address the problems of the rural poor. A major program criteria is to assure that the effects of the activities financed actually help the rural poor. This is especially the case when infrastructure is financed by AID programs. In contrast, and due in part to larger availability of funds, the IBRD has been able to engage in financing of major infrastructural work as well as to steadily increase 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 . IDA, the most concessional "window" of the IBRD, financed close to $1 billion in similar projects in the same year. These activities included projects in research and extension, area development, irrigation and flood control and livestock.

Regional banks have also been active in the agricultural sector although with a slightly different focus. In Latin America, for instance, the IDB has been a major source of financing for rural infrastructure.

Its investments in transportaiton and electrification have provided, inter alia, 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 lended $1.9 billion to Latin America. About 22 percent of this total went to agricultural projects. More importantly the IDB is moving toward focusing a greater share of its programs on the rural poor.

The Asian Development Bank 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 placed emphasis on 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 development projects and seven fertilizer production activities.

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

UN agencies, especially FAO as well as UNDP have also been very active in providing assistance to rural development. FAO has conducted effective programs in reduction of post-harvest losses, locust control, fisheries, etc., and provided strong leadership in agrarian reform and rural development, food security, foresty and project design and evaluation. During the 1980-81 budget cycle FAO will invest about $850 million in these programs. Only $271 million of this total originates from assessed contributions. The balance represents voluntary contributions and resources from the UNDP programs.

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

The food situation discussed above and the prospects for the 80s suggests the importance of rapidly achieving food security in the world. Elimination of malnutrition and starvation requires that stable and adequate food supplies exist even in the event of crop shortfalls or declines in countries' import capacity. It also requires that rural development efforts take into full consideration the need to increase incomes of the rural poor.

Because of the importance and unpredictability of weather as a determinant of supply, one can assume that crop shortfalls will occur as a result of variations in weather patterns. Food reserves to smooth out such periodical shortages are and will be an important element in any system developed to increase food security in developing countries.

Food reserves can also exercise a stabilizing effect on food prices in the areas or countries where reserves are located. Given current trends in domestic food production the goal of food security requires that producer countries establish reserves to offset projected shortfalls.

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

In September 1977 the United States submitted a new detailed proposal for a new International Wheat Agreement which would create an international system of reserve stocks and would expand the Food Aid Convention. Following this initiative, an UNCTAD negotiating conference met twice during 1978 in an effort to conclude an agreement. It met again in February 1979, but failed to reach any agreement. In the final negotiating conference, several difficult issues were not resolved. These include the price levels at which reserve stock would be accumulated and released, the size of the reserve stock obligation for each member, and the measures by which developing members might be helped to meet their reserve stock obligations.

In November 1979, the members of the International Wheat Council concluded that it would not be productive to reopen negotiations on the Wheat Trade Convention. Currently, these countries are engaged in the process of exploring alternative measures. Concurrently, the decision was taken to finalize negotiations on the new Food Aid Convention (FAC) independently from negotiations on the proposed new Wheat Trade Convention.

In addition to its effort to negotiate an international system for food security, the United States has taken several unilateral steps which will contribute to greater stability and food security. As provided for by the 1977 Food and Agriculture Act, the United States has created a Farmer-Owned Reserve program that has included up to 24 million tons of wheat and coarse grains. Also, the Administration has recently submitted to Congress legislation for a Food Security Act which would provide for a special reserve stock to assure that the United States could meet its food aid commitments. As a result of the recent U.S. suspension of grain sales to Russia, the U.S. Government will have an inventory of more than 4 million tons of wheat. This stock will be designated as a food security reserve once the Food Security Act is enacted.

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

The United States has undertaken an assessment of ways to strengthen the size, maintenance, and management of food grain reserves in developing countries. The assessment has resulted in suggestions for a unified approach through capital, technical and commodity assistance on a project agreement basis supported by Title III of PL 480 to help build and maintain adequate food grain reserves and to provide local currency to finance related development activities on a muliyear basis. Also, FAO has recently developed a food security assistance scheme for developing countries interested in developing their own storage programs. Programs have been developed in more than twelve countries. Additionally, the IBRD has undertaken investment programs in storage in a number of developing countries.

IV. B. ENERGY

Energy is now posing serious problems for most of the world's developing countries. With each OPEC price increase, oil-importing LDCs are forced to choose between reducing development expenditures, cutting essential social services, or going deeper into debt. As discussed in the preceding section, 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 and irrigation systems and chemical fertilizers. At the same time as commercial energy resources are increasing in price, the world's tropical forests are disappearing rapidly and, with alarming energy implications for the rural poor of the developing world. The ever more demanding search for firewood diverts villages from agricultural tasks and denudes the landscape, causing widespread soil erosion and additional food production problems.

The indirect impact of higher energy prices on developing countries through economic relations with the industrialized world may have been equally severe. Stagflation in the OECD economies, caused in part by soaring oil prices, has put a damper on the markets for LDC exports, both primary commodities and manufactured exports. Not only has demand been growing more slowly than previously, but the threat of protectionism against manufactured exports is on the rise. For non-oil exporting developing countries as a whole, terms of trade have seriously worsened since 1974, reducing the potential for increased development through international trade.

Despite considerable efforts to reduce demand growth and step-up domestic energy production, net oil imports of the non-OPEC countries will increase substantially in the 1980s, and so too will their need for rapid export expansion and continued deficit financing. Many developing countries are going through an energy-intensive phase of growth similar to that experienced by Western countries in the hundred years or so before World War II.

Even if conservation and energy-efficiency are actively pursued, their demand for commercial forms of energy is likely to keep pace with or even exceed GNP growth rates. In contrast, many recent studies conclude that the industrialized countries, including the United States are now becoming less energy-intensive and their demand for energy probably will continue to grow more slowly than GNP. As a result, the World Bank forecasts that the developing country share of total world oil consumption may rise from one-sixth to one-fourth over the course of this decade, making the developing countries ever more important in the world energy market.

The non-commerical energy problems of the developing countries will undoubtedly become more acute as well. Growing populations and rising prices of kerosene will keep demand for firewood and biologic wastes high, further damaging the natural ecology and further boosting firewood prices. The obstacles to rapid reversal of environmental degradation are formidable. The problems are not clearly understood. New and centralized institutions must be created to provide effective land management and wood production. And the financial costs are high. The Food and Agricultural Organization (FAO) has estimated the cost of replacing the industrial lumber and firewood cut each year in the developing countries to $3.3 billion. Only a small fraction of this is being invested today. According to the World Bank, wood plantations are being established at only one-tenth of the rate necessary to meet the projected expansion in fuelwood demand by the end of the century. Policymakers and planners in the Third World are now paying much more attention to energy problems than in the past.

As elsewhere, the changed global energy picture has led developing countries to look for ways of economizing on energy usage and expanding their supply sources, especially by using more of their own natural resources. Virtually all developing countries share these concerns, and have taken steps to manage their energy sectors more efficiently. These steps range from increasing prices and expanding investment in domestic energy sources, to organizing energy ministries and planning boards. But rapid development of their energy sectors is limited by:

-- lack of basic knowledge of their own resources;

-- lack of appropriate technology;

-- lack of financial resources;

-- lack of adequately trained personnel; and,

-- lack of incentives to draw in outside private capital and expertise.

THE COMMERCIAL ENERGY SITUATION IN DEVELOPING COUNTRIES

Global energy prospects have received considerable research attention and a wide range of demand and supply forecasts are available. The variations among them result from the use of different assumptions regarding, among others, resource potential, economic growth, political and environmental constraints, conservation potential, pricing policies and price and income elasticities of demand. The various forecasts conducted by government agencies and private researchers consistently underline the principal medium-run commercial energy problem -- a projected shortage of petroleum during the second half of the 1980s. Most forecasts also project that even without disruptions, oil supply will tighten by the mid-1980s, if not sooner. Even if the OPEC countries were to produce at their full projected capacities, an unlikely assumption, the potential imbalance could amount to 10-13 million barrels a day by 1980. Underlying this possibility are the following important assumptions:

-- Oil production in the industrialized countries will peak early in the 1980s and decline afterwards;

-- The industrialized countries will be able to reduce by about 30% the incremental energy-intensity of their economies through a variety of announced conservation measures;

-- Increased fuel exports from China will not be able to overcome reduced oil exports of the Soviet Union, at least until after 1990;

-- The lack of basic physical and technological knowledge, combined with long lead-time for investment, will limit the quantitative significance of new energy sources, including renewable energy, in both developed and developing countries for at least another 10-15 years;

-- Demand for commercial forms of energy will continue to grow relatively rapidly in developing countries, as a consequence of industrialization and urbanization.

This scenario raises some serious concerns. Instability, in terms of limited supply bottlenecks and rapidly rising oil prices or a combination of both, can easily occur. The high dependence on foreign sources for energy supplies leads to concerns about access to energy in the required volumes at reasonable prices and a continuous, uninterrupted basis. As the residual supplier of petroleum, which is the critical balancing factor in global energy demand-supply balances, the rate of OPEC oil production, either because of political disturbances or deliberate decisions to conserve oil resources, could alter the world demand-supply balances. OPEC countries together now produce oil equivalent to about 22% of total world energy production.

Most scenarious predict a peaking of petroleum production well before the turn of the century. Yet, the predominant position of oil is likely to last at least until 2000. This coupled with the long-lead times and the high investment required for bringing new energy capacity into production leads to concerns about whether the required policies and adjustments will come forth in time.

All the major groups of countries have their own problems of transition. For the OECD countries the major issues are increased energy effeciency, expanded use of coal and nuclear power, and development of non-conventional energy sources. For the OPEC countries the major issue is the exhaustion of a non-renewable resource and hence the need for long-term development plans to replace oil revenues. For the developing countries, the main issues are exploration and development of domestic commercial resources, more efficient use of commercial and traditional energy sources, development of non-conventional and renewable energy sources, and the need to adjust to a higher energy price situation.

Energy consumption in developing countries is projected to grow faster than in developed countries because of the higher income growth rates assumed for the developing countries and their higher income elasticity of demand. The higher income elasticity is attributable to increasing industrialization and urbanization.

No definitive evidence is available on whether developing countries use energy less efficiently than developed countries. The energy intensity of developing countries is, on the average, about 15% lower than that of developed countries. This, of course, is no indi-cation of efficiency, but rather reflective of different economic structures. Efficiency and potential for conservation would have to be investigated in detail by end-use sectors in order to serve as a basis for conservation policies in developing countries. But is it reasonable to assume that major efforts in conservation will be money well spent in developing as well as developed countries.

Overall, there appear to be substantial possibilities for increasing the efficiency of energy use in developing countries, particularly in the industrial, power, and transport sectors. However, developing countries have not yet given much emphasis to demand conservation measures, partly because they face more difficult problems compared to developed countries. This is mainly because of the low absolute level of energy consumption, high costs of conservation measures in terms of capital and technical/managerial skills and the need to make changes in lifestyles to implement some of the measures. Nonetheless, the evolution of the sector composition of developing countries towards the pattern of developed countries and the adoption of available energy efficient techniques should lead to a reduction in the energy intensity. Government policy can help to encourage energy efficiency through price and non-price measures. Developing countries have the opportunity to build on greater energy efficiency as they grow, incorporating the latest technologies.

As mentioned earlier, various oil importing countries have substantially raised energy prices since 1973. However, often the domestic prices of energy are still below international levels. In addition, the products for direct consumption like gasoline are generally more heavily taxed than those of intermediate uses like fuel oils. Moreover, in some cases like India, kerosene has been subsidized because it is considered to be a basic commodity required by the poorer sections of society. (This policy is, however, now under review in many countries.)

Although the use of selective energy price subsidies can be justified in particular cases, subsidies are generally likely to be inefficient and to have undesirable resource allocation effects. However, severe political difficulties may arise if price subsidies are dismantled too quickly, particularly when the low-income consumers are affected. Consequently, efforts should be made to move energy prices gradually toward international levels, with selective subsidies used to meet particular aims, such as kerosene at affordable prices for low-income families.

While we have as yet no way of accurately gauging the growth in demand for specific fuels, a few broad generalization can be made. Most importantly, petroleum use is likely to grow at least as fast as aggregate demand. Not only is there little real alternative transportation fuel, but oil is also likely to remain in many developing countries a cost-effective fuel for power generation in the short-term, though in the longer-term oil may be cost-effective only in the transportation sectors where appropriate technology for effective fuel diversification is lacking. Finally, unless the processes of urbanization, industrialization, and commercialization of agriculture are reversed, the relative trend away from traditional non-commerical fuels will continue.

Non-OPEC developing countries currently produce about 8% of global crude petroleum, and account for a similar proportion of the export market. The proportion is likely to go up somewhat during the 1980s as Mexico becomes a major producer, perhaps on the scale of Iraq or Iran.

According to World Bank projections, total production in non-OPEC developing countries is likely to increase at least 6% a year during the 1980s, with oil-exporting countries accounting for over 70% of oil production through 1980. The increase in prices has made some reserves commercially viable which were marginal at pre-1973 prices because of their small size and the high cost of transport and recovery. It has also justified increased expenditure on resource exploration, particularly for petroleum and gas.

In addition to the dozen or so non-OPEC oil exporters, a number of oil-importing developing countries have known exploitable oil resources. Though most of their projected increase in oil production in the near term is likely to come from only three countries -- Brazil, India and Argentina -- further exploration in developing countries is likely to lead to findings of significant amounts of additional economically exploitable reserves. Recent exploration in non-OPEC developing countries has been relatively more successful than in other more explored regions. Additional discoveries of giant fields with significant export potentital are less likely than discoveries of smaller fields which could help meet local demand for oil.

The World Bank reports that coal production in developing countries was equivalent to 3.3 billion barrels a day of oil equivalent in 1976, or about 12% of total energy production in developing countries. The major producer among developing countries is India, with Yugoslavia, South Korea, and Turkey being other important producers. Coal production accelerated to some extent after 1973, with an annual growth rate of 7.6% during 1973-74 in developing countries as compared to 2.8% during 1960-73. There are a number of countries with significant long-term potential, including Botswana, Brazil and Argentina.

The World Bank expects the production of coal in developing countries to increase by more than 6% a year during the 1980s, so that its share in total energy production would rise from 12% in 1976 to about 15% in 1990. But there are various constraints on the expansion of LDC coal production, including transportation bottlenecks, insufficient investment funds and technical know-how, demand uncertainties regarding exports, and most importantly lacks of detailed, high-quality geological data and of viable coal investment projects ready for implementation. Development of coal resources also can have hazardous social, environmental and health effects. In Indonesia, difficult terrain inhibits development; in Brazil and Algeria, long distances to the market and relatively poor quality make coal development expensive; in Peru and South Korea, many coal deposits are badly faulted, and coal is expensive to recover. Even where relatively accessable coal deposits of reasonable quality are available, limited domestic markets are a constraint, e.g., the development of coal resources in Botswana, Swaziland, and Tanzania depends on the availability of export markets which are dominated by established exporters like South Africa, the U.S., and Australia. Finally, long lead times are required in the development of a major coal mine.

Hydropower plays an important role in electricity generation. Although large-scale hydropower plants accounted for 40% of installed electric capacity in developing countries in 1976, the vast hydropower potential is still very underexploited. In developing countries in Africa, which have over 20% of the world's hydropower resources, only about 2% of the potential has been developed. In developing countries in Latin America and Asia, with 20% and over 25% respectively of the world's potential, only 6% and 12% of their respective potentials have been developed. The economics of hydropower have become significantly more attractive with the rapid rise in the prices of fossil fuels. However, although the operating costs of hydropower are small, the capital costs are large and hence, hydropower development may be limited by the availability of capital and foreign exchange.

Signficant increases have been made in the last decade to the number of nuclear power plants in operation and the nuclear plants currectly under construction or in the planning stage will substantially increase the existing world capacity. Developing countries like Pakistan, India, Argentina, South Korea, and Taiwan already have access to nuclear power, and Brazil, Mexico, and Yugoslavia are also expected to be using nuclear power to produce electricity by the early 1980s. However, reservations about nuclear development continue to exist, reflecting, *inter alia*, the problems of radioactive waste disposal, security and siting near inhabited areas.

Developing countries are at a relative disadvantage in nuclear power development because of shortages of capital, skilled labor and management. And, the relatively large size (600MW) of commercially available power plants restricts their its use to the middle-income or exceptionally large countries like India. In fact, the economics of nuclear plants given the rising cost of safety and relatived activities, is a major reason why several developing countries have slowed down their development of nuclear power.

NON-COMMERCIAL AND NON-CONVENTIONAL ENERGY

In sharp contrast with the industrialized economies, most developing countries remain heavily dependent on traditional energy sources such as firewood, charcoal, plant and animal wastes. Although increasingly sold in traditional rural and urban sectors, these energy forms are commonly referred to as "non-commerical." In global terms such energy resources may not be very significant, amounting to perhaps 5% of the total according to the World Bank, but they still represent the bulk of total energy use in many oil-importing developing countries, and an even higher percentage in rural areas. In some of the poorest countries, over 90% of the energy comes from traditional fuels and more than 90% of the population depends on firewood or dung for cooking.

Traditional energy systems are frequently integrated into complicated agricultural and socio-economic systems. For example, in many agrarian economies, the right to collect fuel is often separated from the right to grow crops, and is in many cases being lost in the transition from traditional to modern land tenure systems. The "inter-connectedness" and the "tightness" of the use of energy resources and their inter-relationships with village socio-economic systems point to the need for extreme caution in proposals for major changes in agricultural techniques.

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. There is, of course, considerable variation among countries, with the middle-income countries typically having a much lower reliance on non-commercial sources than the low-income developing countries.

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. Wind energy is used for example in separating grain from chaff, drying meats 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 or fuel wood. Deforestation and desertification have often resulted from indiscriminate felling of trees. The hills in various parts of Nepal are literally washing away where the demand for fodder to feed domestic animals, the expansion of agricultural land, and the demand for firewood are causing deforestation of the hillsides,with severe effects on soil quality, erosion and water supply. It is estimated that the present rate of deforestation would lead to completely bare hillsides in many parts of Nepal in less than 15 years. Expanding deserts in the Sahel and northwest India, and increasing desertification in countries such as El Salvador and Haiti are also serious problems. In Africa, deforestation may be total within 7 years in Mauritania and Burundi, and within 20 years in such countries as Ethiopia. In less acute form, deforestation problems are affecting many other countries in Asia, Africa, and Latin America.

The loss of soil as a result of deforestation not only makes it difficult to reestablish forest production on the affected areas but may also lead to problems downstream. The eroded soil may be deposited in reservoirs (shortening their lives) irrigation canals (raising maintenance costs) or riverbeds (increasing the flood level). In addition, soil erosion leads to more irregular water runoffs, which decrease useable water and increase flood potential. Desertification occurs when the vegatation cover is reduced to meet forage and fuel needs and 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 fertilizers and soil conditioners.

Although the precise magnitude of the problem is unknown, it is clear that increasing population pressures will prevent the continuation of past fuel gathering practices. At the current rate of deforestation, the tropical forests of developing countries would disappear in about 60 years. It is estimated that at least 12 countries (including for example, Pakistan, Tunisia, Kenya and El Salvador) with a total population of about 150 million people are currently using woodfuel at a rate which is, on a national basis, greater than sustainable forest yields. And whereas the majority of countries presently use less than the estimated forest yields for their nations, this does not mean that they do not have deforestation problems. Deforestation often occurs because fuel-gathering is concentrated in easily accessible areas. Thus, Zaire consumes only about 2% of its sustainable yield, but experiences severe deforestation problems around Kinshasa. In countries like India, Egypt, Morocco and Mexico, forest resources are either quite limited or else are located in less populated areas.

Soaring firewood prices are another source of inflation. Almost everywhere that commercial firewood markets exist, prices have multiplied over the last decade -- in some cases faster than oil prices. In parts of West Africa and Central America, urban families spend one-fourth of their income on wood or charcoal for cooking; it can cost more to heat the pot than to fill it.

Firewood scarcity exacts other less visable burdens as well. Many users do not buy wood, but the task of gathering it -- which is often delegated to women and children -- can become increasingly time-consuming, to the point where it is a real economic and personal drain. In Central Tanzania, 250 to 300 days of work are required to provide the annual firewood needs of a household. In parts of India, a family member must spent 2 days to gather a week's worth of woodfuel.

As fuel becomes harder to find, people may cut back on essentials. The nutritional impact of firewood scarcity has not been well investigated; but in areas of West Africa and Latin America, people have recently been forced to give up one of their traditional hot meals a day. Peasants in Nepal and Haiti have cut back on their consumption of vegetables that require cooking.

Looking at Nepal alone, World Bank analysts recently calcuated the cost of projected deforestation in terms of foregone food output. They figure that, in the absence of an adequate tree-planting program, the amount of additional dung that will be burned in the year 2000 will reduce grain production by about 1 million tons, worth more than $100 million at current world prices.

OTHER ENERGY FORMS AND ENERY-SAVING TECHNOLOGIES

The increased price of petroleum and other commercial energy sources has made the energy requirements of modernization more expensive. It is often assumed that the process of modernization, to increase productivity and employment, necessarily implies increased use of conventional forms of energy. However, two important points need to be borne in mind.

First, possibilities exist to improve the efficiency of using non-commercial sources, and to develop renewable non-conventional sources so as to meet some of the needs that are presently met by conventional sources of energy.

Secondly, because of the huge costs of providing conventional energy sources, large sections of the Third World population will have to continue to rely on non-commercial sources of energy for the foreseeable future.

Thus, although many renewable alternatives to conventional energy resources are not yet economically viable, there are already some technologies that are both practical and economic, and others ought to be developed to fulfill future needs that cannot feasibly be met by conventional energy sources.

In the meantime, improvements are needed in existing uses and technologies. For example, improved stove design is capable of cutting firewood consumption by at least half as compared to open fires. Efforts to design and disseminate improved cooking stoves are increasingly being integrated into rural development projects. However, the social obstacles to their introduction are often considerable.

Furthermore, because of the close interrelationship among forestry, fodder and food production, rural forestry programs need to be integrated wherever possible with agricultural or rural development projects. Given the immediate basic needs of the rural population, and the history of failed forest projects that ignored the urgency of the fuelwood needs, forest regeneration programs are likely to be more successful if they are integrated in a rural development program which is perceived of as meeting the immediate needs of the people. Otherwise calls for afforestation and soil conservation are unlikely to succeed. With proper management and selection of appropriate fast growing species, forest areas can produce fuelwood up to five times the output of a natural forest. The largest cost elements in establishing fuelwood plantations are in land and unskilled labor, so that rural population can produce fuelwood at low cash cost if labor is donated. However, alternative land uses are frequently higher value uses. Another constraint is that even fast growing trees take 5-10 years to mature and it is difficult to control premature felling for urgent needs. Consequently, the early start of afforestation programs, before problems become acute, is very important and in any case, local participation and support are crucial if saplings are to be protected from livestock and wood poachers. A central government commitment to decentralizing ownership, so that the village and district levels can effectively participate in the management and development of local wood resources, is critical to the success of village forestry programs.

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. Consequently, they are most suited for use in higher income regions and the modern sector. Similarly solar dryers can be used to reduce losses due to rotting, insects and rodents, provided that proper designing is done to accommodate local materials and local production. Solar water distillation is also being currently used in various parts of the world.

Fuel requirements of mechanized vehicles are difficult to meet with energy sources other than petroleum. Alcohol is the most promising candidate. However, its use may be limited until technology is developed for small-scale production. Experiments with farm-size stills are being carried out in Brazil. It is still considerably more expensive than petroleum fuels and requires large amounts of raw material which may mean diverting the use of scare land from other agricultural uses. Micro-hydro schemes can be used to provide power in small isolated communities. However, given the technical requirements, these systems are likely to be limited to countries with populated high rainfall mountainous areas, such as in a number of Latin American countries. Windmills of both advanced and traditional designs exist, and are worth considering in areas with adequate wind and poor rainfall such as Northern Mexico, Peru, some North and East African countries and India. Until costs decline sharply the use of photovoltaic cells is likely to remain limited to situations requiring small amounts of electricity 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.

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 Japan, U.S.A., 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. A small geothermal power package has been worked on in Japan and the United States and forms an important part of the International Energy Agency (IEA) geothermal research program.

In conclusion, although substantial survey research and development work will be needed, the main problems are reasonably clear. Moreover, in view of the urgency of the problem, particularly in fuelwood supplies, it is imperative that action on a substantial scale be taken now.

-- Measures can be taken now in many countries to develop afforestation and reforestation programs, improve the efficiency of cooking stoves and charcoal kilns, develop small-scale hydro and wind systems and improve the use of milling residuals.

-- Research and development work is needed to improve our understanding of the quantitative dimensions of the problems, evaluate and develop alternative technologies and improve project design and implementation of these technologies. To improve understanding of the problem, systematic surveys are needed of traditional energy supply and trade and environmental effects of non-commerical energy sources. R&D efforts at present are focused disproportionately on providing mechanical power and electricity. More investigation is needed on improved methods for domestic energy uses such as cooking and the use draft animals. International cooperation in R&D efforts is needed to avoid duplication and allow for cross fertilization of ideas. Solar energy technology is still evolving. In most cases, it will not be technically and/or economically feasible to expect a quantitatively significant contribution in this decade. Continued reseach, development and technology adaption together with emphasis on the initiative of widespread demonstration and commercial deployment efforts in these areas is needed.

U.S. POLICY AND PROGRAM

The basic U.S. objective in the energy component of the United States development assistance program is to help LDCs to develop and manage energy supplies, both for commerical and household use and including conventional and renewable energy sources. A number of tasks are required to meet this objective.

-- Helping LDCs to assess their energy sources, uses, and needs in a comprehensive way. Few countries have energy plans, nor have many conducted surveys of rural energy patterns, solar radiation distribution, coal reserves, or the full scope of their wind and hydropower potential.

-- Assisting LDCs to overcome constraints on the development or expansion of their existing energy sources. For example, there is not sufficient financing, on terms acceptable to both host governments and foreign investors, to develop LDC hydroelectric or fossil fuel potential fully.

-- Containing and, if possible, reversing environmental degradation already caused by the increasing scarcity of fuel (mainly firewood) for home use. In Nepal, Panama, Kenya, and the Sahal, for instance, deforestation has led to serious soil erosion and deforestation.

Until recently, development assistance for energy was largely financial and technical assistance for power generation and distribution. With low prices and abundant supplies of fossil fuel, financial assistance for applying alternative energy technologies was uneconomical and there was no need for assistance for fossil fuel exploration beyond that financed by private capital. The 1973 oil-price revolution made these assumptions obsolete. Since then, all foreign assistance donors have been paying more attention to energy and have begun significant assistance programs for fossil fuels, renewable energy, and energy planning in general.

The multilateral development banks are the principal institutions providing financial assistance for energy projects. The MDBs are active in energy in three ways:

-- in funding projects in power generation;

-- in assisting LDCs to increas their production of fossil fuels; and

-- in starting programs in renewable energy, particularly firewood.

The MDBs have long supported projects in power generation which still represents 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 MBDs role in power generation reflects their comparative advantage in being able to provide the substantial amounts of capital which projects of this kind require.

With strong U.S. support, the World Bank has taken the lead among MDBs in assistance for fossil fuel production in LDCs. Following a series of studies which concluded that up to 70 oil-importing developing countries had oil-gas potential, the Bank, in January 1979, reviewed its experience under the 1977 program of lending for oil and gas production, and expanded the program to include financing for exploration and development.

This will entail assistance in resolving administrative and legal problems as well as in negotiations between host governments, and oil exploration and development corporations. To avoid misunderstandings between those two groups, the Bank hopes to play the role of honest broker and catalyze significant private sector investment. Over the next 5 years, World Bank lending for fossil fuel development is projected to reach $5.6 billion, and to support projects totalling $18.6 billion. This volume of lending is expected to result in the production of energy equivalent to 2 million barrels of oil a day. The regional banks have recently begun to diversify their lending in energy so as to include gas transmission and distribution, and coal mining. They are planning even more comprehensive lending programs for the future.

In 1977, the Overseas Private Investment Corporation (OPIC) inaugurated a similar program utilizing its insurance and guaranty authorities to catalyze increased exploration for and production of hydrocarbon resources by the U.S. private sector in the developing nations. OPIC is expanding these activities in response to growing interest by private U.S. investors. 1979 witnessed a milestone for the program when petroleum was produced from the first commercial oil field in Ghana, which was discovered by U.S. investors insured by OPIC. OPIC, together with others, was also instrumental in the development of the Tiwi geothermal power generation project in the Philippines, and will continue its efforts to help develop geothermal, solar and other forms of energy.

The Administration has actively encouraged the development banks to become more involved in the areas of forestry and renewable energy. The World Bank is beginning to include fuelwood as an integral part of rural development projects. Each of the banks is studying its future role in new and renewable energy; specific policies and programs are expected to be announced during 1980.

The UN has focused on training, technical assistance, and pilot projects in the energy areas. The UN Development Program, and the Division of Natural Resources and Energy are increasingly active in both conventional and non-conventional power generation projects as well as in forestry projects. Total funding for UNDP energy activities was about $30 million in 1978-79. With the strong support of the United States the UN plans to convene a global conference on new and renewable forms of energy in Nairobi in August 1981.

The Agency for International Development (AID) has been building up an energy assistance progrom which focuses on renewable energy and institution building for improved management of all energy resources. AID's emphasis on renewable energy reflects its concern for meeting the needs of the poor who will be increasingly unable to meet the rising cost of conventional fuels. Many alternate technologies using indigenous resources to solve local energy problems are not proven. AID is working at the frontiers of this emerging field, and will finance extensive testing and adaption of technologies to determine their cost and effectiveness in specific LDC applications. In addition to technical issues, special attention will be given to economic, social, cultural, and management issues.

There is a pressing need for pilot projects on fuelwood production and use. There is much to learn about the feasibility and management of village woodlots, government plantations, appropriate tree species for energy and reforestation, and local cultural practices. For example, improved stoves offer exceptional promise to ease the household fuel problems, but socially acceptable technology must encompass the widely different ways of preparing food. These activities are often in the hands of women and to be effective, programs for increased efficiency and supplies must be designed with women's participation in mind.

In 1979, the Congress amended the Foreign Assistance Act of 1961 to allow AID to fund projects relevant to commercial energy development. This budget urged AID to allocate up to $7.0 million for scientific and technical training in energy and for resource assessment, including geologic and geophysical surveys.

Under the policy guidance of the Department of State, DOE manages the International Energy Development Program (IEDP). In this program, the DOE conducts comprehensive energy assessments in cooperation with governments of participating developing countries. The participating countries, by closely collaborating with U.S. experts in conducting comprehensive analyses of energy needs, uses and resources, develop an improved capability for continuing energy planning. The assessment also helps the host country identify means to develop alternative energy strategies which will enable it to reduce its dependence on imported oil, further the development of its indigenous and renewable resources, and avoid premature or excessive commitments to nuclear power. The assessments are indepth as well as comprehensive, usually entailing about 10-12 man years of effort plus analogous effort on the part of the participating country. The assessment generally extend over about a one-year period including the time required to obtain approval of both governments before report publication.

Cooperative energy assessments have been completed with Egypt and Peru, and are currently under way with Argentina, Portugal, and the Republic of Korea. Invitations have been formally extended by the U.S. Government to two additional countries and additional invitations are planned. The host governments have found the preparation of the assessment, the assessment documents, and the enhancement of their energy planning capability to be extremely helpful. They are continuing to utilize the results as a basis for setting priorities for utilizing available resources and for determining necessary follow-up activities to achieve energy development objectives which are consistent with the overall economic and social development goals of their countries.

DOE actively pursues a program of cooperation with other nations in the development and introduction of new or improved energy technologies for commerical use. The objectives of this cooperative are to accelerate technical progress, avoid undesirable duplication of effort, encourage cost sharing, encourage early introduction and use of technologies to lessen dependence on oil, discourage the proliferation of sensitive nuclear technologies, and maintain the U.S. position as a leader in technology.

International R&D cooperation is carried out both bilaterally and multilaterally. The nature of cooperation ranges from the exchange of information or technical experts through coordination of national programs, and jointly funded R&D or demonstration projects.

In the last several years, DOE has initiated joint projects with several developing countries, including Mexico, Saudi Arabia, and Brazil. However, while DOE's technical cooperation has tended in the past to focus on R&D for technology development and has been limited to activities of technical benefit to the U.S. domestic programs, some more recent agreements have increasingly included the demonstration of technologies generally suitable for LDCs. DOE has also provided technical assistance to several AID projects in countries such as India, Sudan, Egypt, Mali, and Indonesia.

With volunteers posted throughout the developing world, the Peace Corps can gather key information on energy use and contribute to the spread of knowledge of new energy technologies. Within the host countries, AID and the Peace Corps have begun a joint program to survey rural energy use in more than 30 countries. This information will be available for host country energy offices, multilateral aid organizations and U.S. assistance efforts.

The Peace Corps has written and distributed field manuals for the construction and use of renewable energy systems such as solar grain dryers and water heaters. Further technical assistance is provided by Peace Corps consultants who, on request, advise the host country energy offices on appropriate technology for energy production. The Peace Corps is also embarking on an expanded program in forestry and fuelwood production.

IV.C. POPULATION

As improvements are made in nutrition, sanitation and health care in developing countries mortality rates have declined. But birth rates have remained high, creating or aggravating problems of development. It would be difficult to exaggerate the magnitude of this problem.

To quote Robert McNamara, President of the World Bank; "Short of nuclear war itself population growth is the gravest issue that the world faces over the decades immediately ahead....The population problem is an inseparable part of the larger, overall problem of development. But it is more than just that. To put it simply, excessive population growth is the greatest single obstacle in the development world."

The dynamics of population growth present a long-term problem. Given the present reproduction rates, the population replacement level - an average of two children per family - will not be reached until the year 2020. And the world population will not stablize for about 70 more years at about 10 billion people. The objective of our assistance is to shorten the timeframe of this process in order to reduce its destructive impact on human life.

High birth rates threaten equitable development. Four major reasons for this are:

-- high birth rates reduce the per capita availability of scarce resources;

-- they contribute to worsening income distribution;

-- they damage maternal and child health;

-- they reduce the opportunities of women for full participation in the economic activities of their societies.

Despite some recent declines in birth rates in the developing countries, hard-won gains in real GNP of about 5 percent annually during the past decade have been seriously eroded by annual population growth of 2 1/2 - 3 percent. In much of Africa, where population growth averages close to 3 percent and is still rising, per capita food supplies are actually falling. In parts of Asia and Latin America, the picture is no brighter.

The resources necessary for food production and human shelter are limited in the world today. When over used, soil becomes infertile, water supplies disappear, forests can no longer regenerate and grazing lands turn into desert. Examples of each of these conditions exist where rapid population growth has placed individuals in a position where their environment can no longer support their needs for basic survival.

Birth rates are higher among the poor and uneducated. This not only causes an immediate worsening of income distribution, but also through reduced savings, makes the long-term redistribution of wealth more difficult.

The health of both mothers and children is jeopardized through the effects of early childbearing, close birth-spacing, and septic abortion. Weak and emaciated mothers tend to have weak infants usually susceptible to common infection. Infant mortality among these groups is thus abnormally high. With the premature end of lactation, another pregnancy often ensues -- and the new infants are still weaker. Delaying the onset of childbearing and promoting child-spacing through safe, effective, and acceptable family planning methods can do much to improve maternal and child health.

The health problems of malaria, typhoid, dysentary, etc., are massive. To add the physical harm of close birth spacing to the burden already resting on existing health personnel and facilities is to pay a high cost in human life.

High birth rates impact adversely on women's economic participation: it is difficult for women who are constantly pregnant to avail themselves of broader opportunities in education and employment. Furthermore, poor and uneducated women often want large families because they depend on children, particularly sons, for help in the home and in the fields, for support during their old age, and for physical protection. Only as women's opportunities improve, particularly in education and employment, and women see viable and socially acceptable alternatives to large families will they demand better family planning services.

What can be done to reduce birth rates?

First, we need to educate ourselves and others on the seriousness of the problem. This requires collecting data that demonstrate the consequences of high birth rates for development, for health, and for women in particular.

Second, we need to help provide all couples with the information and the safe, effective, affordable, and acceptable means to plan their families. The Plan of Action adopted by the World Population Conference in 1974 recognized that couples should have not only the right but also the information and means to plan their families. Yet the vast majority of people in the Third World still lack any convenient access to family planning services.

Despite initial skepticism, evidence is building that good family planning services can be provided through outreach systems of "primary health care". In many countries, trained non-physician personnel are effectively distributing contraceptive pills and condoms. Sterilization is becoming an option for more people in the Third World, and -- as in the U.S. -- many couples are choosing it as a safe, easy and effective means of contraception. There is no perfect method of family planning, as there is no perfect medical treatment of any kind. Every effort must be made through biomedical research to improve the available means of family planning and to see that the poor people of the developing countries have the best.

The immediate task is to provide the available family planning services. This requires funding for items, such as IUDS and condoms, training and equipping personnel to deliver family planning services, and construction of clinics and other necessary infrastructures.

Biomedical and operations research, information campaigns, demographic data collection and analysis, and efforts to promote public policies more supportive of family planning are also needed.

Third, we need to promote development policies and programs that make smaller families a more attractive option. Providing safe, effective, affordable, and acceptable family planning services will have a substantial impact on birth rates -- judging from limited experience so far from such disparate societies and economies as Indonesia, Egypt and Colombia. But perhaps the cruellest irony of poverty is that it leaves so many couples, particularly the women, feeling obliged to do precisely what makes it ultimately more difficult for the country as a whole to break out of poverty -- to have large families. Thus, when family planning services are provided in conjunction with development polices and programs that make smaller families a more attractive option, birth rates are likely to come down faster and farther. To build demand for family planning most experts recommend a mix of development measures, emphasizing improvement in family income, child health and women's opportunities:

a. efforts to promote jobs, education, and technology for women that lessen their dependence on children and give them appealing alternatives to their traditional role as mother of many children;

b. efforts to change the costs and benefits associated with large families;

c. efforts to benefit parents who limit family size by returning to them part of the social saving they made possible. This compensates parents for what additional children might have provided, e.g., old-age support.

More specifically, particularly in the rural sector, women must have better income-earning opportunities. This means improved access to: scientific know-how through extension services; credit and savings programs; markets for the purchase of seeds, fertilizer and water; and marketing organizations. Education programs must be designed to include girls and women, through practical steps recognizing cultural proscriptions against coeducation, etc. Certain types of cooperative saving and social-security systems, especially those funded largely within the community, also deserve greater attention.

POPULATION ASSISTANCE: REQUIREMENTS AND CURRENT FLOWS

A. RESOURCE REQUIREMENTS

Estimating the resources required just to supply good family planning services is extremely difficult. Recurring costs for basic primary health care, including family planning, are put roughly in the $5-15 per capita range. Although the per capita cost for family planning alone is much lower, start-up costs and other programs needed in conjunction with family planning services add substantially to the cost. Current levels of population assistance, even when combined with inputs from the developing countries, do not come close to meeting the family planning needs of the billion or so poor people in countries eligible for U.S. assistance.

B. RECENT AID FLOWS

As the attached DAC tables suggest, total population assistance has been increasing over the past decade, reaching some $326 million in 1977 (the latest available data). But this is almost trivial, about 2 percent of the total DAC development assistance of about $15 billion. Major donors include only about half the DAC countries, notably the U.S. ($146 million) and Sweden ($32 million). Canada, Germany, Japan, the Netherlands, Norway, and the UK each provide over $10 million annually. UNFPA, the IBRD, the major private "intermediaries," 1/ and the Ford and Rockefeller Foundations also provide substantial assistance, all financed by contributions included in the countries' assistance data except for the Bank. 2/ Ten years ago the U.S. supplied about 80 percent of all population assistance from DAC countries. Recently, after major growth in Japanese, Norwegian and Swedish assistance and moderate increases from other bilateral donors, the U.S. share dropped to about half. 3/ But the U.S. remains the leading contributor to UNFPA (supplying about one-fourth of its budget) and to other major "population intermediaries" (IPPF, FPIA, AVS, and Pathfinders).

1/ International Planned Parenthood Foundation (IPPF), Family Planning International Assistance (FPIA) , Pathfinder Fund, and Association for Voluntary Sterilization (AVS).

2/ The table divides each country's assistance into bilateral, broken down geographically and functionally, and multilateral and contributions to UNFPA, IPPF, etc. They also list separately UNFPA, IPPA, and others funded partly from the countries' contributions, and give geographic and functional breakdowns for their programs too. Care must be taken to avoid double-counting and to recognize that the picture of a country's efforts may be only partial.

3/ Of course, the relative U.S. share is lower if UNFPA and intermediaries are considered, but that raises the problem of double-counting.

TABLE 7

ASSISTANCE TO POPULATION PROGRAMS - COMMITMENTS

THOUSAND U.S. DOLLARS

COUNTRIES	1969	1975	1976	1977
United States	44,009	99,975	135,460	146,197
Other DAC	7,093	128,968	116,235	126,855
Total DAC	51,102	228,943	251,695	273,052
Multilateral (by Executing Agency)				
UNFPA	1,162	17,236	31,541	33,896
UNO	1,067	21,655	19,023	15,961
WHO	755	11,761	13,156	13,586
UNICEF	5,492	13,616	6,320	6,495
World Bank	-	8,800	34,300	33,100
Other	49	27,462	26,325	27,581
Total Multilateral	8,525	100,530	130,665	130,619
Private Agencies				
Total	46,429	67,765	71,315	71,658

C. AID'S POPULATION ASSISTANCE

In 1979 AID concentrated its population assistance of $185 million on the improvement and extension of family planning services. Host government's family planning programs were supported in such countries as Indonesia, the Philippines and Thailand. In Latin America and Africa AID provided over $42 million in assistance through the population intermediaries such as the International Planned Parenthood Foundation Population Council.

AID's family planning delivery systems were tailored to be cost-effective and to concentrate on the problems of reaching remote rural areas. This effort was supported by a $10 million operations research program. Actual contraceptive commodities procurement was funded at $48 million in FY 1979 and over $6 million was spent on biomedical research to improve the quality of the contraceptives themselves. Population education and information programs were supported with $13 million and demographic work with $16 million.

In addition to designing and managing population activities in the field, AID concentrated on exploring linkages between women's educational and economic opportunities and family planning activities. The results of these studies will provide guidelines to assist in future program design.

D. COMPARATIVE ADVANTAGES OF DONORS

We are only beginning to sort out the comparative advantages of donors in population assistance. Over the next year, IDCA will study current efforts in the population field. Our work plan includes: assessing countries' efforts to deal with population pressures; estimating their requirements for population-related assistance; and reviewing the programs of the various development agencies, such as UNFPA, WHO, and the IBRD as well as United States agencies, to determine their comparative strengths in population-related assistance. (We attach an appendix which describes what each donor does in all functional areas. The data are for calendar years, not U.S. fiscal years.)

The study will involve examination of efforts in the following fields: collection of basic population data; population dynamics (i.e., analysis of demographic data, consequences for development of population growth, and research on fertility determinants); communication and education; biomedical research in contraceptive methods; operations research and evaluation; and impact of other development programs on fertility.

The IDCA study will include: AID, UNFPA, IBRD, and the major "intermediaries" - IPPF, FPIA, AVS, and Pathfinder.

The results of this study should provide IDCA with the information it needs not only to direct AID's efforts, but also to formulate a more efficient U.S. assistance strategy in population that will be responsive to the needs and resources of developing countries and that will enhance donor coordination.

E. THE FUTURE ROLE OF THE U.S. GOVERNMENT

Many LDCs remain hesitant to address population growth issues. AID and ISTC can help meet pressing current needs and, by demonstrating the efficacy of certain approaches to family planning, persuade others to do more.

Combining good family planning services with development programs that make smaller families a more attractive option holds the promise of containing population growth. Yet this approach is both new and highly demanding technically and administratively. Although more and more developing countries, especially in Asia, favor this appraoch, few donors have been willing to make a major effort to try it. (The private intermediaries are the notable exceptions, but their capacity to work in fields beyond family planning is limited.) The United States should make a major effort to demonstrate the value and workability of this approach.

Functionally, we are considering efforts to:

1. Expand AID's efforts to provide family planning services, focusing particularly on commodities, training, administration, recurring costs, and research/evaluation. We hope the World Bank will provide infrastructure and transport wherever possible. We also hope the Bank will exert more vigorous leadership in consortia and consultative groups to assure that the United States, other donors and LDCs support complementary parts of a sensible family planning system.

2. Expand ISTC support for biomedical research to develop better family planning methods and AID's support for assessing those methods in the field.

3. Expand AID's efforts to identify the combinations of family planning and development programs that work best to reduce birth rates, through:

   a. "operations research" - controlled experiments to assess different family planning program approaches;

   b. "fertility determinants" research-mutivariate analysis of economic and social policies and family-planning programs as they effect fertility;

4. Expand AID's efforts to try out actual combinations of development and family planning programs, particularly at the village level, focusing particularly on women's education and employment opportunities; and "development benefits" for people who limit family size.

IV.D HEALTH

Both President Carter and the Congress have urged that the United States make a special commitment to expand health assistance on both humanitarian and development grounds. Health is inarguably a basic need. Programs to improve health can often touch the lives of the poor directly and swiftly. Through its effect on productivity, health is also crucial to development, particularly to strategies relying on broad popular participation and labor-intensive technologies. People worn down by chronic hunger, disease, and the effects of close birth spacing and many children can neither work nor learn effectively.

NATURE OF THIRD WORLD HEALTH PROBLEMS

Mortality and morbidity in the Third World are concentrated among young children and their mothers around the time of birth: half of all deaths are among children aged five years and younger, while complications of pregnancy and septic abortion underlie substantial maternal mortality. The striking point is that most of these children die not of exotic "tropical" diseases, but from common diarrheal and respiratory infections, compounded by mal-nutrition and the effects of close birth spacing. (Malaria is also a major problem, as are a variety of other parasitic diseases.) These same common infections plague the children of developed countries, but they survive because of healthier and wealthier parents, cleaner and more sheltering environments, better diets, and better access to health care.

The principal threats to Third World health -- malnutrition, common infections and high fertility -- are thus not mysteries. The capacity to deal with them exists -- not perfectly, to be sure, but with substantial effectiveness.

The principal health problems of the poor can be ameliorated through a combination of:

a. "primary health care" to provide basic information and services to the many people now without them;

b. clean water and sanitation, which most people also lack;

c. special disease control efforts, particularly for malaria but also for other communicable diseases;

d. health planning;

e. developmental measures in agriculture, to provide food and income, in education, and in other sectors.

The question is where to start. What matters most? What do different donors and the LDCs do best?

PRIMARY HEALTH CARE

The U.S. Government gives top priority to primary health care - basic systems of health, nutrition, and family planning information and services relying on networks of non-physician personnel to deal at the local level with malnutrition, enteric and respiratory infections, illnesses controllable by immunization, and high fertility. Such systems provide a base from which health care coverage can be expanded as resources permit. They are plainly more effective than a series of single-purpose programs. Nevertheless, as many as three-fourths of the LDC populations now lack effective access to primary care. The expansion of primary care systems is thus a sensible first step.

At the International Conference on Primary Health Care, co-sponsored by WHO and UNICEF at Alma Ata in 1978, almost all nations joined in a commitment to improve health by starting with basic health, nutrition, and family planning services. The United Nations General Assembly in 1979 -- in a U.S.-initiated resolution --

unanimously endorsed the Alma Ata conference conclusions and the primary health care approach. It asked member countries to consider health as an integral part of the developmental process and urged that this topic be included in the new International Development Strategy for the 1980s.

WHO, with its strategies endorsed by the General Assembly, is gearing up to provide global leadership among nations and agencies concerned with primary health care. In particular, it is helping member countries to plan their requirements -- local, national, bilateral, multilateral, or private -- to help meet those requirements. Out of WHO's $354.3 million regular budget and $371.6 million in voluntary contributions covering the period of 1978 and 1979, substantial elements of primary health care were included in program components. UNICEF is expanding its efforts in the primary health care field, as is the World Bank, through its nutrition health care programs. In 1978 (latest available data), UNICEF provided about $48.2 million for child health and $11.6 million for child nutrition. The U.S. will endeavor to develop opportunities to support primary health care programs through the support of the UN, IBRD, and a variety of NGOs, particularly where opportunities for a major impact through bilateral U.S. programs are limited.

The United States provides support for health programs in a number of different ways. U.S. technical personnel participate not only in LDC health efforts, but also in WHO and UNICEF activities; among its other health-related activities, AID administers large-scale pilot projects and AID's resident field missions regularly provide the continual administrative and technical support that often spells the difference between success and failure in assistance programs in new fields.

In our continuing bilateral assistance for PHC, we will build on our substantive record -- it is AID which provided much of the "venture capital" for developing and testing the first major "outreach systems" that helped prove the feasibility and affordability of PHC and which paved the way for Alma Alta. We will expand our support for innovative PHC programs, focusing on training, provision of health care supplies and equipment, management, and logistics support, analysis/evaluation and construction of health outposts and other facilities where needed. We will try to leave heavy infrastructure and transport to others, notably the IBRD, but we must interpret these general rules with some pragmatism. We will consider funding certain recurrent costs including the supply of health care goods in particularly poor countries. Our assistance requests for the Agency for International Development for such primary health care systems is $61.3 million in 1980, compared to $51.8 million in FY 79. Primary health care is the heart of our health assistance program. The proposed ISTC will be working to enlist American scientific skill for the examination of questions of disease control and delivery of health services in developing countries.

WATER/SANITATION

Inadequate water supplies and waste disposal are major factors contributing to disease. At the UN Water Conference at Mar del Plata, Argentina, the United States joined other nations in agreeing to give increased attention to the needs of poor countries for improved water supply and sanitation systems as part of a broader commitment to the International Decade of Drinking Water and Sanitation of 1981-1990. The UNDP and IBRD are helping to organize a world-wide effort to promote "safe" water and sanitation, with UNDP doing initial country plans and the IBRD carrying them forward and organizing funding, particularly in 30 key countries. WHO is attempting to integrate the health components of water projects with the engineering and developmental aspects.

The scope of the effort is enormous. The UN and the Bank estimate that providing "safe" water and sanitation to the 1.3 billion people in rural areas who now lack these amenities could cost $43 billion or more -- about one-third (or $15 billion) of which would need to come from donor agencies, with the other two-thirds to be covered by developing countries.

The World Bank has been a leader in the effort to meet this challenge, with commitments in 1978/1979 of over $1 billion for water supply and sanitation. The United States has emphasized its willingness to expand support for water and sanitation programs provided adequate projects can be developed and that others share a major part of the costs. In fact, AID financing for water and sanitation has risen from $80 million in 1977 to $143 million in 1979.

DISEASE CONTROL

Malaria, schistosomiasis, onchocerciasis, and certain other communicable diseases require control campaigns beyond the normal scope of primary health care (which does include immunizations). For malaria there at least exist control measures that are feasible, reasonable in cost and without detrimental ancillary effects on either individuals or the environment. Available means of controlling schistosomiasis and onchocerciasis, however, are not as satisfactory.

AID now provides about $40 million annually for disease control. It supports large operations research projects (e.g., the Volta Basin onchocerciasis project). It will continue to provide substantial support for malaria control, particularly in Asia; it will also promote malaria control programs in Africa where to date, AID has had few comprehensive control programs. Support for schistosomiasis control programs that include such measures as environmental modifications, provisions of drinking water supplies and sanitation, and new health and hygiene education is being considered. While the U.S. contribution to research on these diseases will be relatively modest, we will continue to support basic and operational institutions like WHO's Tropical Disease Research Program. The ISTC, once it is funded, would provide this support, working in conjunction with HEW, which also supports some work in this field.

HEALTH PLANNING

Health planning is increasingly necessary as LDCs and donors alike seek to make hard decisions about the allocation of scarce resources for health. Health planning should analyze the comparative costs and advantages of different combinations of health measures. The United States will support comprehensive health planning that demonstrates how health can be improved through a combination of measures not only in the health sector, but in agriculture, education and elsewhere; in this context, a major element will be efforts to reduce population growth. We will also support, through health planning activities, improvement of management and supervision in primary health programs.

Building on the work begun three years ago by the White House Task Force on International Health, IDCA plans to analyze the nature of health problems in developing countries, the best means of dealing with these problems and the comparative strengths of different donors and developing countries in providing basic health programs.

IV.E WOMEN IN DEVELOPMENT

In agricultural regions of developing countries, women have been major--often predominant--contributors to the basic sustenance of their communities. Among the poor, women's productivity is underrated as women's contributions to family welfare and national production in the informal sector go unobserved. Statistics based on the money economy give an inaccurate picture of women's production. In all societies, women have been denied the status and participation their contributions merit.

The process of modernization itself has not been clearly advantageous to women. The implementation of land reform programs, the imposition of new legal systems, and the introduction of technological innovations have often reduced traditonal levels of participation and access to decision making for women. At the same time women's share of resources is declining, demands on them are increasing, particularly where there is a high rate of male out-migration, and where there is conversion from local food production for local use to cash cropping. Women receive disproportionately fewer benefits from education programs. Access to specialized and vocational training is far more limited for women. Women lag far behind men in literacy, particularly in rural areas. This has an impact on development strategies designed to reach the rural poor as studies show that uneducated women are more likely to have more children and are less likely to see that their children receive formal educations.

The development experience of women shows a number of tragic paradoxes. In many countries, women grow from 40 to 80 percent of the domestic food supply, yet they are often the last to eat. Women who migrate to cities to improve their lot are often unable to enter the male job world, and are reduced to domestic servitude or even prostitution. As their access to land decreases, they may have greater incentive to have children as a labor resource to increase family productivity.

Women's status varies from country to country and even within countries, depending on social class, education, cultural heritage, and the country's level of development. Yet in all societies, including our own, women and men have unequal access to power, opportunity and resources. Few dispute that closing the gaps between men and women's options is a necessary step to making women full partners in an effective development process.

WOMEN IN DEVELOPMENT -- AN INTERNATIONAL CONCEPT

The inclusion of women as a feature in development strategies is not solely an issue in the United States. The UN designation of the Decade for Women (1976-85) and the International Women's Year Conference in Mexico City (1975) initiated an international process which has had worldwide impact. UN conferences on global issues have recognized the role women have to play in meeting and resolving these problems. Most recently, the Declaration of Principles and Program of Action of the FAO World Conference on Agrarian Reform and Rural Development (July, 1979) urged measures to recognize women's land ownership rights, expand women's access to agricultural inputs and technical services, and promote collective action and organization of rural women to facilitate women's participation.

The UN Conference on Science and Technology for Development (August 1979) also explicitly recognized the existing quality and quantity of women's contributions and recommended that all UN bodies continually review the impact of their science and technology programs on women, and promote the full participation of women in planning and implementing those programs.

In July, 1980 there will be a Mid-Term Conference on the UN Decade for Women, preceded by regional conferences. The themes for the Decade are equality, development and peace. The sub-themes for the July conference are education, employment and health. The purpose of these efforts, in which the United States has played a leadership role, is to increase dramatically the level of knowledge on the changing status of women world wide and the degree to which national programs have made progress in integrating women into their national economies and accorded women legal equality, equality of participation, and basic human rights.

U.S. POLICY

Section 113 of the Foreign Assistance Act, enacted in 1973, mandates the integration of women into U.S. funded assistance programs. Section 104(d) provides an additional mandate giving priority to programs which have an impact on fertility by enhancing women's range of opportunities, alternatives to early marriage and early and frequent childbearing, access to education and training opportunities, and health and social services.

AID's women-in-development policy has been flexible, adapting to local conditions and identifying constructive opportunities. Policy, strategies and activities are guided by three basic objectives: increased education and training for women, improved levels of income generation and economic productivity, and participation and organizational capacity which consolidate these other objectives and make possible a self-generating, self-reliant process of change.

Within AID, programs are developed in the country missions as well as in Washington. The Women in Development Office, established in 1974, assists in this process by collecting data and information on women and making it available to the development community; funding small, cutting edge projects; giving technical assistance; participating in project review and evaluation; and monitoring WID projects and activities.

A joint State/AID/ICA/Peace Corps foreign policy directive was issued in May 1979. Its aim is to achieve greater understanding and involvement of U.S. diplomatic missions in the process of improving and advancing the status of women around the world. The directive calls for stepped up informal discussions with foreign leaders to give greater meaning to UN instruments to carry out the World Plan of Action.

POLICY IMPLEMENTATION

In 1973 Section 113 was modified to provide that up to $10,000,000 a year "be used, in addition to funds otherwise available for such purposes, for assistance...primarily to support activities which will increase the economic productivity and income-earning capacity of women." In response to this mandate, the Women in Development Office has created a tracking system to monitor WID projects in AID. The system is based on mission designation of projects or parts of projects as "WID projects" under Section 113(d). Guidelines to missions have stated that "women in development projects" do not include projects in which women are merely recipients of food or contraceptives, but where women "receive training or other assistance designed to increase their earning capacity or enhance their economic productivity."

Projects are of two distinct kinds. "WID specific" projects are designed for women as beneficiaries and "WID component" projects are those efforts within larger projects which take deliberate account of women's needs and participation. Women-specific projects respond to the different problems women face in gaining access to resources and acquiring and using new skills. In many cultural settings, institutions such as cooperatives can only work effectively if they are organized by and for women. Women-specific projects also provide the necessary testing for projects that can be incorporated into larger projects as WID components.

The inclusion of WID components in larger projects is most desirable. More than half of the world's poor are women and children, and programs which fail to take women into account as part of a larger strategy may miss their mark and run a higher risk of failure, or they may further isolate women from the development process.

Sectoral estimates show that about a quarter of WID projects (by amount spent) are in agricultural and rural development, another quarter goes to education and training, and nearly 40 percent to health projects. Direct expenditures on income generation projects amounted to only $1.3 million in 1979. There is great discrepancy between regions with Africa and Latin America in the lead in terms of number of projects and amounts of aid. Still, women and development projects are only a small percentage of regional aid expenditures.

With continuing pressure on AID to increase its efficiency, larger projects will be favored. It is most important that women be regularly included in the design and implementation of large projects, and that small, yet effective women-specific projects contintue to be funded. It is also important to recognize the role women's organizations can play both as capacity builders and as intermediaries, combining a number of small initiatives into a larger project.

Among the WID projects funded in 1979 were:

-- A project in two villages in Tanzania to facilitate community identification of health and nutrition problems. This project created a successful, self sustaining mechanism for women's involvement in planning and problem solving and has been expanded to include other communities. Evaluations showed that a "listening survey", conducted by the village women themselves in the natural setting of the village, was much more effective than conventional survey techniques. The project will be extended to other villages.

-- A "Strengthening Women's Role in Development" project in Upper Volta involves the participation of village women and the rural domestic economic extension service in income generating activities through a revolving credit fund. After some early difficulties, the project is now gaining momentum, and will reach women in 60 villages.

-- A rural integrated development project in Jamaica, intended to reach 4,000 farmers and their families, has a WID funded component to assure the inclusion of women, whether or not they are household heads and irrespective of whether their husbands participate in the project. A unique aspect of the project is its training of men and women extension agents to work in teams, thus making it possible to utilize the full range of family production and decision-making. WID technical assistance has emphasized vegetable intercropping intensive gardening techniques; a later phase will develop agriculturally based crafts for income generation.

WID's coordination activities include support for newsletters, rosters, communication and management skills training and issue papers through a variety of intermediary organizations. Though most of these projects are too recent to have had evaluations, some trends are clear from earlier efforts. Direct participation of women in planning and implementing projects, whether or not they are WID projects, is essential. For example, a WID study of forestry projects showed that failure to take into account the different roles of men and women in planting, maintaining and harvesting trees caused a higher rate of project failure.

Further, evidence is mounting that women's organizations are most likely to be self-sustaining for low income women when they are linked to income generating activities. Projects which are most likely to succeed are those based on felt needs. As Ruth Dixon's study of rural women has shown, women do not always directly experience the need to become literate or to improve nutrition or to adopt family planning. Yet,

> "most people do experience the need for money that would enable them to buy or produce the goods and services they need for their basic survival. Infusing new sources of income into rural households--especially into those of the poorest families--thus creates an effective demand for more food, improved housing, better clothing, household utensils, and for health care sufficient to keep the income flowing. In this sense, then, the creation of income generating, skilled or semi-skilled employment has a spin-off effect that other forms of investment are less likely to yield."

*Dixon, Ruth. Rural Women at Work (Johns Hopkins, 1978) p. 175

In addition to projects in the field, WID has funded studies to improve the collection and use of census and household data on women and to increase its capacity to evaluate the impact of its programs on women. It has studied the complex dimensions of the role of women in agriculture, and the relationship between women and intermediate technology, migration and the phenomenon of women-headed households, and women and credit; and has distributed this information within AID and to individuals and institutions in the LDCs and the development community. It is encouraging the development of WID centers to increase the level of expertise that can be brought to bear on this issue in the United States--especially on Title XII land grant campuses--and in the LDCs.

In addition, WID has sponsored a roster of women experts available for technical assistance, a directory of women's organizations worldwide, and resource guides to sources of funding here and in Europe. It has cooperated with OECD/DAC donors and recipient countries to coordinate aid policies. It supports newletters, including French and Spanish editions, to reach individuals concerned with women in development, particularly in the developing countries.

MULTILATERAL COOPERATION

U.S. aid to women in development occurs in a context of international programs, some very new, and some which have been in existence for 20 years or more. Multilateral organizations within the UN system and the development banks have taken steps to insure that women's participation is encouraged. The Mid-Term Conference on the UN Decade for Women, to be held in July 1980, in Copenhagen, should provide the opportunity for closer cooperation and exchange of information.

In September the WID Office sponsored an informal conference of WID representatives from OECD/DAC nations to compare their aid programs and policies toward women, and to strengthen ties between donor nations. A second segment of the conference, with LDC representatives of women's organizations, looked at the role of women's organizations in the development process. While few donors have WID offices, all are committed to WID activities, and some give aid directly to women's organizations in the developing countries. As in the pattern with U.S. aid, most European donor nations have emphasized health, nutrition and rural water supply projects, but there is a noticeable shift toward income generation. Some programs, such as the Canadian 'MATCH' organization, have established successful cooperative projects between private domestic voluntary organizations and indigenous women's groups in the LDCs. Other programs function through international intermediaries.

World Bank lending, for example, demonstrates a recognition of the complex web of factors which affect women's underdevelopment. At the policy level, attention has been given to women's role on a sector by sector basis, recognizing the negative effects that conventional development strategies have had on women's effectiveness--for example the way in which urban upgrading and resettlement projects can destroy informal community organizations geared to family survival. The report also notes some of the positive effects appropriate technology could have in reducing the amount of time women are forced to spend on essential but unproductive tasks such as carrying water and gathering firewood.

PARTICIPATION IN THE MID DECADE CONFERENCE IN COPENHAGEN

AID is actively involved in the preparations for the Mid-Term Conference on the UN Decade for Women to be held in Copenhagen in July 1980. The Conference will assess the implementation of the World Plan of Action and set priorities for the next half of the decade. Among the specific activities that have been undertaken are:

-- participation in the State Department briefing in September, held to inform U.S. women's groups of the purpose of the conference and U.S. participation in it. Over 800 women from all over the country attended.

-- aid to the Conference Secretariat at the UN to support the attendance of LDC women at the regional preparatory conferences to be held in Lusaka, New Delhi and Caracas in November and December.

-- support for a project through the national YWCA for the NGO (Non-Governmental Organization) Forum.

-- creation of a Task Force within AID to report on projects in the three substantive areas to be covered at the conference: education, employment/income generation, and health, with an additional report on women as refugees.

In addition, AID is sending delegates to the regional conferences, and will provide materials and technical support/workshops for the NGO Forum. International cooperation and sharing of information are important means to improve AID effectiveness.

IV.F NATURAL RESOURCES AND THE ENVIRONMENT

In recent years both the recognition and the acuteness of the LDC natural resource management problems have grown. And, an American strategy has begun to emerge for helping developing countries improve their capability to use their natural resources wisely. It is now recognized that the rapid deterioration of critical resources in the Third World is threatening economic growth and life itself in many countries, as well as endangering the global environment. The increasing severity of the problem results, in large part, from rapid population growth, and from the need now to find new supplies of fuelwood. There is also a growing awareness that the best approach to these problems is to help developing countries help themselves.

At the end of a decade of highly visible environmentalism in the United States, the special environmental problems of the Third World are now receiving increased attention. The seventies began with preparation for the 1972 Stockholm Conference on the Human Environment, a conference which went forward under the implicit threat of a Third World boycott. The LDC's as a whole were wary of the imposition of western values about "quality of life" which would, inevitably, deflect attention from the overwhelming priority of alleviating poverty.

The Conference was held with important results, however, so that eight years later numerous advances have been made as countries have enacted environmental legislaton, and established environmental and natural resource management machinery to better manage, and where necessary, conserve their scarce resources. At the end of the decade, eight of the world's leading multilateral aid organizations were preparing to sign an agreed statement of environmental principles to govern their operations and decision making--an event that could not have occurred were it not clearly understood that the LDC's who borrow money from them believe that environmental protection and natural resource management considerations are integral to their long term well-being.

Although the large aid donors--bilateral and multilateral alike--have not responded as quickly to the problems of environmental deterioration in developing countries as those with knowledge of the problem would like, as of 1977-78, the U.S. Government had begun to focus on environmental problems in some AID programs. In part as a result of pressure from U.S. environmental organizatons, AID introduced environmental considerations in development projects and it initiated a new category of "environmental protection" activities into its scope of programs. Most recently, within AID, and within the government as a whole, environmental concern have become a more important consideration in natural resource-oriented development projects.

That is why we believe that 1979 ended a decade, but inaugurated a new era of U.S. environmental concern and achievement in the less developed world. The following is evidence in support of that claim:

-- During 1979, AID committed itself to a program of reforestation in many countries where fuelwood shortages (and the consequent desertification and soil erosion) is the single most damaging environmental problems. In related programs, AID is facing the urgent issue of making environmentally benign forms of energy available to those whose energy use now threaten to destroy their own environments.

-- Also during 1979, AID committed itself to a renewable energy program, to be closely coordinated with the firewood replenishment effort, which will also contribute to alleviating the environmental pressure on resources.

-- Early in 1979, AID completed a Report to Congress, "Environmental and Natural Resources Management in Developing Countries" which marked the beginning of a major effort to help LDCs evaluate their resource needs. A program of country-specific resource surveys ("environmental profiles") is underway, which is identifying environmental threats in particular countries, so as to provide LDC governments with a critically important tool for planning and decision-making.

-- The Government moved to recognize the worldwide threat of disappearing tropical forest, by establishing an Inter-Agency Task Force on Tropical Forests which will report to the President in March 1980. The United States is committed to national and international action to launch an accelerated, coordinated effort to prevent the destruction of this irreplaceable global resource.

-- Another Government-wide effort, the Year 2000 study ("Global 2000") which the Council on Environmental Quality and the Department of State will complete and send to the President in early 1980, is serving to help focus attention on a series of critical emerging worldwide resource management and environmental problems, and will provide a basis for an expanded U.S. and international effort to cope with them.

-- In the international arena, the U.S. has supported a "Declaration of Environmental Policies and Procedures Relating to Economic Development," which was negotiated and agreed to by the major multilateral development assistance agencies, including the UNDP, World Bank, and regional development banks.

In the following pages a few of the programs recently undertaken, or now being expanded, are described. These by no means represent "the whole" of the U.S. response to environmental and natural resource management problems and needs worldwide. Nor does "the whole" yet amount to enough.

LAND AND FORESTS: THE U.S. RESPONSE

The principal cause of the worldwide deforestation phenomenon is agricultural expansion caused principally by population growth and shifts. As noted in the discussion of LDC energy problems, the need for fuelwood for basic household needs, mainly cooking, leads householders to denude the surrounding area of first brushwood, and later, of trees. The scarcity of fuelwood in some parts of the world, for example the Sahel, has forced villagers to cut back on cooked food stuffs which has an adverse effects on their nutritional intake. Because of the need for increased agricultural land, forests are cleared for fields, and farm animals are grazed on uncleared land or on the surrounding brush. These direct population pressures are compounded by government policies of land settlement and by commercial exploitation of timber. Typically, timbered-over land is then settled and used for farming, so that the forest is not allowed to regenerate.

The environmental consequences of deforestation are devastating. Flooding and erosion remove topsoil from the land and deposit it as silt in the water supply. Deforestation upriver accelerates sedimentation in dams and reservoirs which have been built for hydroelectric power, shortening the life expectancy of these very expensive projects. Where rainfall is scant, removal of ground cover has a different consequence, desertification. After the soil, no longer held by roots, has blown away, the sand that remains cannot support agriculture. In tropical forests where the mass of nutrients is often found not in the soil but concentrated in the living material, the thin layer of soil cannot support permanent agriculture after the trees are felled. After only a few years these exhausted lands are abandoned, or turned over to grazing. If, through overgrazing, the grass cover is removed, tropical torrents soon wash away the soil, leaving the land worthless.

The Congress demonstrated its awareness of the importance of the soil and forest conservation problem by amending the Foreign Assistance Act in 1978 to specifically include forestry and soil erosion among the concerns to be considered in aid to small farmers abroad. The U.S. scientific community is stepping up research to help meet the fuelwood and forestry crisis. The proposed ISTC will include programs in environmental planning and management, with expanded efforts to combat desertification and with new initiatives in forestry, as well as coastal zone management, pollution control, and the improvement of skills for developing mineral and other nonrenewable resources. The National Academy of Sciences is looking into fast-growing trees and shrubs suitable for planting in community woodlot projects. AID is supporting a number of projects that look to reforestation in the relatively short-term. One such project is being carried out by CARE and the Government of Chad to plant fast-growing trees which will ultimately provide firewood for fuel, shade for humans and cattle, and enrichment for the soil of this area. Seedlings grown by the Chad Department of Water and Forests are given to farms or villages if local people agree to plant and care for them. CARE supplies the tools and the seedlings. Chadian forestry agents, working with U.S. Peace Corps volunteers, then follow up with advice and help in transplanting and maintaining the trees. Over 250,000 trees have been planted, with a survival rate of 56 percent. As the trees mature, in 5-15 years, they will have a cumulatively benficial effect on the quality of the environment, the soil, and even of village life.

SOIL AND CROPLAND

Given the increasing world population the world-wide loss of cropland is an alarming phenomenon. Besides deforestation and denudation leading to loss of cropland through erosion, other land use practices which do not physically remove the soil can also decrease its fertility. Improper irrigation causes salinization, improper fertilization reduces the soil's water retention quality, over cultivation exhausts the nutrients in marginal soils. A problem of another kind is urbanization. Urban centers and road networks remove land from farm use. In most cases, the flat terrain best suited for agriculture gets built over first, pushing farmers onto erosion-vulnerable hillsides and marginal lands.

In these circumstances, and because most LDCs face a shortage of fertile land, the tools and skills of sound land management are essential. U.S. satellite technology has been put at the service of developing countries in the form of free images and computer tapes generated by NASA's Landsat, which enable investigators in developing countries quickly and relatively cheaply to map their arable land, forests, rangeland, and water resouces, and to monitor the changing condition of their natural domain for such purposes as forecasting crop yields, detecting erosion of land and pollution of water, recognizing alterations in land use, and giving early warning of and assessing damage caused by natural disasters.

AID's Benchmark-Soils Project is remedying the serious deficiency in knowledge about tropical soils. The project builds on a soil taxonomy developed over the past 30 years by the Soils Conservation Service of the U.S. Department of Agriculture to classify soils on the basis of their physical, mineralogical, and chemical characteristics, their climatic environments, and other variables. The benchmark-soils project seeks to determine the characteristics of key -- or "benckmark" -- tropical soil families and to store the resulting information in a computerized soil data bank. Applied to development assistance, the soil taxonomy concept provides a cost-effective and useful short-cut for technology transfer. For example, because of the similarity of their soils, data from Peru has pointed to solutions for Indonesia.

Although the Benchmark Project is only two-thirds complete, the findings are already being felt. Some 10-20 percent of the project funds are devoted to training. The Philippines and Indonesia are extending the benchmark concept and are training their own people in its use. In a move that should speed dissemination of the taxonomy concept around the world, India has asked permission to publish the U.S. Soil Taxonomy. Published in the United States in 1975, this is the most comprehensive such study in existence. Finally, to help reduce the costs of disseminating the information which is already available, AID is publishing, for worldwide distribution, a bibliography of tropical soils.

WATER

The world's supply of water is endlessly recycled through the earth and living things, the rivers, oceans, and atmosphere. Water resources management involves maintaining water quality and making the most effective use of available quantities. Since a water resource often is shared by two or more countries, maintaining the quantity and quality can frequently become an issue for international cooperation or conflict.

The need to ensure adequate water supplies for all, in a time of increased demand gives added urgency to a number of measures, including development of more efficient irrigation systems and of irrigation methods which conserve water. In addition, increased consumption is forcing countries to consider sources hitherto untapped due to poor water quality. It is increasingly recognized that the residue of human use, industrial effluents and agricultural wastes, must be properly managed. Waste disposal systems and water treatment techniques must fit the overall development priorities and the social and cultural patterns of a country, as well as its economic and technological capacities. These are among the concerns that will be given increased attention in the 1980s as a part of the United Nations' Water and Sanitation Decade.

AID has a longstanding program of research to develop more efficient irrigation methods and technical assistance to LDCs to promote the utilization of improved technologies. This assistance includes establishing extension services and credit systems to reach poor farmers. Low capital labor-intensive solutions have the highest priority. AID cooperation with multilateral efforts encompasses broader environmental concerns which go beyond water supply. For example, on a project financed by the World Bank and other donors to build a series of dams in Senegal, AID is providing technical assistance in the planning stage to minimize displacement of people, prevent transmission of water-borne diseases, and protect fish downstream in the ocean from the effects of changing the stream outflow.

In the area of water quality the EPA helps developing countries either through contract or through the Reimbursable Development Program, to develop safe drinking water and solid waste disposal program. In addition, EPA experts give WHO, UNEP, and other multilateral agencies short term technical assistance on a wide range of environmental activities in which the EPA has expertise.

MULTILATERAL ACTIVITIES

The multilateral donors, led by the World Bank, are now also giving higher priority to environmental issues. The World Bank was the first of the donor agencies to establish a systematic screening of development projects for their environmental implications. The Bank has gradually increased its involvement in this area, moving from environmental screening to environmental assessment, and to projects designed specifically to attack environmental problems--such as deforestation, water pollution and soil problems. The Bank is also encouraging host governments and development finance institutions in developing countries to enact and implement appropriate policies regarding environmental and natural resource management issues.

Other donors are also active. The Inter-American Development Bank has adopted an environmental policy and the UNDP has initiated preparation of environmental guidelines for its field representatives. Likewise, UNDP and the World Bank have agreed in principle to carry out a joint review of past projects, to learn the lessons of both failures and successes. And the "specialized agencies" of the United Nations system have identified sectors of special priority for environmental attention, and are working under the leadership of the UN Environmental Programme to develop criteria for specific projects.

VI.G. SCIENCE AND TECHNOLOGY

The developing world increasingly looks to science and technology to help solve specific problems in all fields of social and economic activity, including industry, agriculture, health and energy; to speed the development of human resources; to increase efficiency in the production of goods and services; to help foster improved levels of living through economic growth; and to enhance security and self-reliance.

Today, much of the scientific knowledge and technological know-how applied in the developing world comes from industrialized societies. According to UN statistics, six countries -- the United States, Soviet Union, France, United Kingdom, Japan and the Federal Republic of Germany -- account for nearly 85 percent of investment and 70 percent of personnel engaged in research and development. The developing countries, with over 72 percent of the world's population, account for less than 3 percent of global research expenditure and 13 percent of the world's scientists and engineers. Several multilateral corporations have R&D budgets larger than most LDCs, even LDCs comparatively strong in science and technology. Given this distribution of expenditures it is not surprising that research and development is heavily focused on industrial country priorities. For example, cancer research consumes billions annually in the U.S. while little is spent on improving primary health care or on research into tropical diseases which afflict millions of the poor in developing countries. Recognizing the importance of applied science and technology for development, LDCs are seeking to increase their capacities to generate and apply their own technology as well as to adapt foreign know-how to their needs.

At least four problems are related to LDCs needs for science and technology for development. First, there is the familiar yet persistent problem of the brain drain. Not surprisingly, scientists and engineers in developing countries just like their counterparts in developed countries tend to affiliate themselves with the most prestigious, best equipped or most highly-paying companies, research institutions or universities they can. In most cases, those institutions are in the advanced industrialized countries. And, in many cases, it is difficult for individuals trained in the West to build professional careers back in their own countries, thus, frequently, individuals from countries with less well-endowed R&D sectors elect to remain and work in the developed countries rather than return home. There is also the problem of a brain drain *in situ*. Many of the best scientific minds in developing countries work on problems of little relevance to their local environments either because funds are not available to address other more pressing problems or because the local problems do not offer a path to significant recognition. And, often, where research does occur it is poorly, if at all, coordinated with national developed policies.

A second major problem that confronts developing countries in their need to develop, adapt, and apply technology is the lack of an adequate technological *infrastructure*. This is a problem not only of inadequate research institutions, but also of limited trained personnel or opportunities for training, and the absence of channels through which to diffuse new and appropriate technologies.

The third problem is one of *competing demands on limited resources*. How does a country with an average per capita income of $150 a year justify expenditures for, say, the development of new and renewable sources of energy. Yet, without allocating resources to develop indigenous sources of energy the development of poor countries in the decade ahead will be hindered by staggering costs of imported fossil fuel and the benefits of development compromised by the depletion of scarce local resources such as woodlands.

Fourthly, there is a problem which LDCs face of access to technology transferred through the private sector. To facilitate the transfer of technology, LDCs have pressed in UNCTAD for a mandatory code of conduct covering all forms of commercial transfers. They have also proposed revisions of the Paris International Intellectual Property Convention to reduce protection for patent owners, which they believe will lend to freer and earlier access to privately owned technological know-how. While the United States has opposed LDC proposals that would diminish the economic role of private enterprise, we are prepared to support selected efforts to facilitate LDC access to technologies needed for development. U.S. support of LDC efforts to adapt and apply technology in all areas in which U.S. assistance is provided is designed to help overcome each of these four problems.

RESEARCH AND DEVELOPMENT

A successful model of international collaborative research often cited by the United States is the Consultative Group in International Agricultural Research (CGIAR). The CGIAR is sponsored jointly by the FAO, UNDP, World Bank, the United States and 32 other governments, international organizations and foundations. It finances and coordinates a network of international agricultural research and training centers. The centers are linked with national research programs in developing countries and with centers of expertise in developed countries to form a continuum of scientific activity that stretches from the research laboratory to the farm. Programs supported by the 11 centers financed through the CGIAR now includes the major food crops in most ecological zones of the developing world. In addition to the work of the International Rice Research Institute and the International Maize and Wheat Improvement Center, whose successes are widely known, CGIAR centers are studying agricultural systems and crops for both humid and semi-arid tropical conditions and for cooler dry climates, potato varieties for a range of climates, animal diseases, and livestock management. The CGIAR also supports an activity which encourages and coordinates the preservation and classification of plant genetic material.

Another example of science and technology at work for agriculture is the benchmark soils project, which builds on a soil taxonomy developed over the past 30 years by the Soil Conservation Service of the U.S. Department of Agriculture. The taxonomy is a system of classifying soils on the basis of their physical, mineralogical, and chemical characteristics, their climatic environments, and other variables. Wherever they occur, soils of the same family have certain limiting factors that affect crop yields -- water-retaining capacity, nutrient supply, erodability and so on. By simply determining the family characteristics of a soil, (and therefore, the factors that must be overcome) it is possible to save agronomists and soil scientists much of the time and energy they would otherwise spend on site-specific investigation. Experimental agricultural stations throughout the tropics will be able to use the basic taxonomy in their own studies. This information can be retrieved quickly and easily from a soil data bank, thus enhancing the possibility of agricultural information exchange within and among developing countries. These are but two of a great number of research and development programs focussed on particular problems confronting LDCs.

SCIENTIFIC AND TECHNOLOGICAL TRAINING

As with R&D, the preponderance of training for LDC students in science and engineering is conducted in the developed countries. In the United States alone, over 200,000 undergraduate and graduate students from developing countries are currently enrolled in U.S. institutions, many of them majoring in S&T subjects. The nature of the training offered in developed countries usually reflects the material and technological environment of the host country. The LDC student with an advanced degree too often finds himself ill-prepared to apply his discipline to the different conditions of his home country. For example, medical students in the United States are trained to make diagnoses relying on sophisticated laboratory tests which require delicate instruments, elaborate facilities, and highly-trained technical support personnel, few of which are available in the LDC hospitals, much less in village health centers. One remedy which has been proposed would encourage LDC students to base their studies in part on real problems in their home countries. The NSF has a pilot program which enables U.S.-trained foreign students to conduct their dissertation research in their home countries.

The National Association of Foreign Student Advisors is currently conducting an assessment of the relevance of U.S. training to the jobs foreign students may occupy when they return home and what can be done to better adjust U.S. curricula to these needs. There are at least two aspects that need to be considered. One is how to make instructions more relevant to the LDC personnel, and the other is how to improve career rewards to U.S. academic faculty who serve in LDCs.

INSTITUTE FOR SCIENTIFIC AND TECHNOLOGICAL COOPERATION (ISTC)

Compromise approved in House/Senate Appropriations Conference on February 27, allotted $12 million for the remainder of FY 80. The compromise would place an ISTC-like limited entity within AID, severely the size and rank of staff, and prohibit transfer of AID projects. Because of the overall budget situation, enactment of conference proposals is problematical.

The proposed ISTC has as its two main goals, the promotion of collaborative research into development problems which may require a longer timeframe for results, and the strengthening of indigenous S&T institutional capabilities in developing countries, particularly related to those problem areas. The United States is committed to increasing the amount of scientific research conducted in the United States which will be relevant to developing countries, and also to conducting an increased proportion of research with LDC nationals and in the LDCs. Active participation of LDCs in these research activities will help ensure the relevance of the research to LDC conditions, and will also give LDC scientists more experience and confidence in dealing with their indigenous development problems.

Developing country representatives at the United Nations Conference on Science and Technology for Development (UNCSTD) praised the creation of ISTC as a signal of the United States' recognition of the importance which developing countries attach to building the capability to solve their problems, and of the mutual benefit to be gained from a cooperative approach to the solution of global problems. The ISTC Council, which is to advise the Director on broad policy and program matters, would reflect this cooperative approach, in that up to one-third of the members were to be from developing countries. Specialists and experts from developing countries work with United States counterparts at various levels of the ISTC in planning, programming, and evaluation. On an institutional level, ISTC is to seek and promote close relations with S&T communities and institutions in developing countries.

Scientific and technological talent is one of this country's greatest strengths. ISTC is mandated to mobilize this talent for the benefit of developing countries. ISTC would be the focal point in the U.S. Government for assessing R&D of relevance to development, and identifying for high priority those topics of mutual interest which are most urgent to developing countries. In this regard, one of its first undertakings would be to conduct a study of ongoing R&D activities in the USG arena and to develop an information system to keep this inventory accurate. ISTC would stimulate and assist U.S. non-governmental S&T institutions to give more emphasis to building up the scientific personnel resources of developing countries through such means as joint research activities and improved training of LDC students.

The new approach which ISTC would offer would be timely in several other ways. It would take a long-range perspective, focusing sustained scientific attention on problem areas rather than on country programs. More and more countries in the developing world are reaching "middle-income" status where AID assistance arrangements are no longer appropriate. ISTC, with its problem focus, would be able to undertake cooperative work with these countries to deal with the development problems which remain.

The first year of ISTC operations would involve a combination of new initiatives related to certain identified problem areas, and redirection of some ongoing projects from AID. The program areas which ISTC has selected as its immediate research priorities are: increasing agricultural productivity to combat world hunger, improving health conditions, improving population programs, nutritional improvement, strengthening indigenous S&T capacity communications and information systems, energy planning and new supplies, and environmental protection and natural resource management.

CHOICE OF TECHNOLOGY

Many developing countries are insisting that the industrial countries take the steps necessary to help them acquire the capability to select from among the broad range of technologies available abroad, these best suited to their specific requirements. Developing countries sometimes resent the well-intended efforts of developed nations to assist them with "appropriate technologies" on grounds that in reality they are outdated, second-hand technologies chosen to keep LDCs in a dependency status and to prevent them from acquiring advanced technologies that would enable them to compete effectively with the advanced countries. This is an incorrect impression and developed countries re endeavoring to demonstrate by supporting practical projects that appropriate technologies not only reduce requirements for capital and often create jobs, but can involve the application of advanced technologies in the fields, for example, of solar energy, satellite applications in remote sensing or communications or in molecular biology.

A recent workshop involving leading U.S. proponents of appropriate technology characterized it as follows:

-- can be simple, intermediate or high technology;

-- is selected, based on dialogue and mutual respect between those who plan, produce, consume and are affected by the technologies chosen;

-- relates to existing skills or those acquirable by training;

-- tends to distribute political and economic power more equitably;

-- uses all resources efficiently and keeps total costs low;

-- is understandable by, and accessible to, end-users.

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* Workshop on Appropriate Technology, Winrock International Conference Center, Morrilton, Arkansas, Dec. 1-5, 1978. Full report available from Office of Science and Technology-AID/Washington.

Education in an LDC via broadcast satellite is one example where an appropriate solution to a problem involves the most advanced technology. In India, a one-year satellite instructional TV experiment brought television programs to 2,400 remote villages and an average of 200,000 people every day through direct telecasting via satellite to village TV sets. The programs treated agricultural techniques, health and hygiene, family planning, teacher training, and in-school education. This project, for which NASA loaned a satellite, was so successful that the Government of India now expects to launch its own satellite in 1981 to expand telecommunications throughout the countryside. A satellite was also used to link both voice and transmission of data to 12 far-flung nations of the Pacific. Broadcasts were relayed, and there were conferences in health, nutrition, education and training. The system is used by the University of the South Pacific for broadcast instruction to a student population spread over 11 islands. In several countries AID is organizing a program to test the effectiveness of new satellite capabilities for educational purposes. Expected to participate are Peru, the Yemen Arab Republic, Indonesia, the Caribbean and perhaps Kenya. Under the project, countries will receive the necessary communications equipment, technical training, evaluation, and exchange of information and guidance in the techniques of program production. While assessing the efficacy of this approach, AID will build a permanent communications facility as well as the integrated education system necessary to use this technology in developing countries.

In the Philippines, AID is helping to develop and apply non-conventional energy sources, such as small-scale generating plants and solar distillation units. Funds are supplied to conduct research into the applications of wind and ocean energy sources.

In rural Nepal batteries to power radios in schools are recharged by inexpensive solar panel assemblies mounted on the roof that are designed to last 20 years with little maintenance.

Appropriate Technology International (ATI) is a private institution established with assistance from AID in 1977 to make small grants for disseminating low-cost technologies in developing countries. With the $106 million received so far from AID, ATI supports LDC projects such as testing small-volume cement plants, constructing more fuel-efficient stoves or heating devices from locally available materials, adapting technique to make simple water pumps and farm tools, and designing crop rotation patterns and waste disposal systems.

The application of appropriate technology to the delivery of services often can combine labor and capital economically in utilizing locally available resources and involves the community in implementing the delivery system.

For example, in Africa AID has proposed a Regional Improved Rural Technology project which will provide an exchange of technological information and rapid consideration and funding of small-scale experimental projects such as irrigation pumps, animal-drawn farm implements, and vegetable-oil presses. This project demonstrates how extension of credit can facilitate the dissemination and adoption of technologies best suited to the needs of the poor.

While in theory, conserving capital is not an essential requisite for appropriate technology in developing countries, technologies which are appropriate frequently call for modest capital outlays. The capital-saving concept can be applied not only in producing a product, but in solving a local problem. One effective channel to LDCs for both small-scale, capital-saving technology as well as U.S. high technology is offered by the National Technical Information Service (NTIS) of the Department of Commerce. Results of AID-funded research are communicated to LDC users through the Agency's Development Information and Utilization Office. Other federal agencies share specialized technical information with the Third World through their data centers. AID currently assists over 100 data banks and technical libraries of specialized information relevant to LDC needs, at a cost exceeding $15 million a year, most of which are integral parts of larger assistance projects at U.S. institutions.

In Ecuador, $4 million from AID is helping create technology networks to improve the access of rural poor to low-cost relevant technologies designed to increase farm income and food supplies. An information service on post-harvest food losses at Kansas State University offers an exchange of experience on technologies with a potential to reduce LDC losses in grain and vegetables caused by pests, disease, bad harvest practices, inadequate storage facilities, and other common causes. Since developing states must be able to assess, analyze and apply technical data once acquired from abroad, AID is also helping train LDC personnel in the skills needed to manage indigenous information programs.

COMMUNICATIONS AND INFORMATION

The 34 UNGA created a permanent committee on information and requested that UNESCO undertake a study of establishing a UNESCO fund for the development of communications. UNESCO is sponsoring an intergovernmental meeting April 14-21,1980. Among the issues to be considered are the feasibility of setting up a special fund, the structure of any new mechanism and the role of UNESCO relative to other UN agencies, and the degree of private sector involvement in any proposed insitution. The UN Committee on Information will meet in May. IDCA is convening a study group of USG agencies to consider the U.S. role in communications development in relation to other aspects of development assistance.

PRIVATE TECHNOLOGY FLOWS

While the United States cannot dictate policy to the private business community, government can help in several ways to facilitate and stimulate technology transfer agreements between private companies and LDCs. This involves, on one hand, strengthening LDC capacities to select, adapt, and apply technologies, and, on the other, removing impediments to U.S. exports of technology. Steps in this direction include promotion of linkages between small-and medium-scale U.S. firms with smaller firms in LDCs, and assistance in improving measurements and standards practices in developing countries. The USG is analyzing factors governing the flow of proprietary technology to LDCs to identify impediments and devise measures to reduce them.

ISTC proposes to work with U.S. private business to promote cooperative arrangements for management training and other activities aimed at promoting technology transfer. The United States encourages direct investment, licensing and other collaborative arrangements between U.S. industry and developing nations, since such relationships offer the most promising stimulus to share technologies which Third World companies can use for profitable ventures. The Overseas Private Investment Corporation (OPIC) encourages technology transfers through its investment promotion programs in some 90 developing countries.

The Export-Import Bank provides financing for export transactions, a number of which incorporate a transfer of technology to developing countries. AID's Reimbursable Development Program helps middle-income countries obtain modern technology by helping to identify profitable sources of U.S. expertise.

UN CONFERENCE ON SCIENCE AND TECHNOLOGY FOR DEVELOPMENT

The UN Conference on Science and Technology for Development (UNSTD), held at Vienna in August 1979 was the culmination of several years of extensive preparation designed to help countries assess their scientific and technological capabilities and identify means to improve their capacity to apply science and technology to development goals. A draft program of action was expanded and refined through a series of regional seminars and preparatory meetings, a good part of which was adopted at the Conference and later ratified by the UN General Assembly.

The principal resolutions called for creation of a new Intergovernmental Committee of the General Assembly to coordinate UN activities in science and technology, study by an experts' group on long-term financing of science and technology programs in the UN system, and establishment of a two-year Interim Fund administered by

UNDP. A pledging conference for the Interim Fund will be held in March 1980, and if it is successful the Fund will begin operations later in the year. Its principal purposes will be to help create and strengthen the science and technology infrastructure of LDCs to solve development problems and to better tap the technological resources of developed countries. An initial target of $250 million was agreed upon. The President's budget for 1981 has proposed an initial U.S. pledge of $15 million. The first substantive meeting of the Intergovernmental Committee, which will provide policy guidance for the Fund and other UN activities in science and technology, will be conducted in late May, 1980.

APPENDIX A

INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
1980 DEVELOPMENT POLICY STATEMENT

This Statement is the International Development Cooperation Agency Director's annual statement to the President on development policy. The 1980 Statement was submitted to President Carter in December 1979.

INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
1980 Development Policy Statement

1980 will be another harsh year for poor people in the poor countries of the world. Rising petroleum prices, combined with inflation and recession in industrial nations, assure that it will be more difficult than ever for the people of developing countries to obtain food, jobs, and adequate housing. In the current economic climate, all industrialized countries will be hard pressed to maintain development assistance at levels commensurate with increased need and their long-term interest.

The response of the United States under these circumstances will have a major influence on our industrial partners and on the North-South "global negotiations" starting in mid-1980. Some of our industrialized allies have decided to sustain higher growth rates in development aid budgets than we, despite severe budget deficits. Japan will have doubled its aid in the years 1978-80 and is projecting further increases in 1981. Germany will increase its aid budget 12.5% in 1980 and the Netherlands, France and Sweden are also planning increases in their aid contributions.

We no longer question that the development of the Third World is important to the United States. This importance relates to our moral values and our economic, political, and strategic self-interest. A combination of these factors has impelled us to promote development for the last three decades. An interdependent world, made ever smaller by increasing trade and sophisticated communications and transportation, demands that we carry on this work.

In the years ahead, to be true to our values and to achieve our national interests, we must at a minimum:

1. ACCELERATE THE ATTACK ON GLOBAL POVERTY

   -- Major changes should be set in motion to carry out the recommendations of the Hunger Commission by increasing the attention devoted to agricultural development and food security by international institutions as well as by our own bilateral programs.

   -- We will increase our population and health, and will give priority to countries with a demonstrated commitment in these areas, in order to help them meet their objectives.

   -- We will take the lead in encouraging the design of development plans and programs that explicitly recognize the crucial role of women.

2. MANAGE ECONOMIC INTERDEPENDENCE WITH DEVELOPING COUNTRIES FOR MUTUAL PROSPERITY

   -- Programs are being designed to increase the amount of energy available to developing countries from their own resources.

   -- The United States should cooperate with other countries and international institutions to forestall debt problems in developing countries and to respond to financing problems promptly, and with adequate resources to promote adjustment without political upheaval and economic stagnation.

-- The United States should remain open to the exports of developing countries so that the developing countries may earn more of the capital required for development through trade.

-- OPIC's capacity to stimulate private U.S. investment in developing countries will be enhanced, and AID's program to increase opportunities for U.S. companies abroad will be expanded.

3. FOCUS SPECIAL DEVELOPMENT EFFORTS ON REGIONS AND COUNTRIES OF HIGHEST CONCERN TO THE UNITED STATES

-- A program will be prepared to accelerate the development of countries in the Caribbean Basin.

-- The United States will cooperate more closely with other aid-providing countries and development institutions in dealing with the extraordinarily complex development tasks facing the governments of sub-Saharan Africa.

-- The United States will give preference in its assistance allocations to countries that respect human rights as fundamental for achieving equitable development.

4. DESIGN A DEVELOPMENT STRATEGY TO MEET THE CHALLENGES OF THE 1980S

-- The United States will participate actively and creatively in designing the global agenda for the Third Development Decade which is to be adopted in 1980, and in the UN's consideration of a round of global negotiations on international economic issues.

-- With U.S. support, the United Nations Conference on Science and Technology for Development called for the creation of a special interim fund for science and technology, to be administered by the UN Development Program (UNDP). Your initiative in proposing the new Institute for Scientific and Technological Cooperation (ISTC) will enable the United States to maintain its leadership in fostering research and development of knowledge and skills for peaceful and humanitarian purposes.

-- IDCA will review the allocation of resources for the various development assistance programs that the United States now supports, in order to prepare a U.S. development assistance policy for the 1980s.

5. INCREASED EFFICIENCY AND EFFECTIVENESS

-- In the case of AID, an increased assistance program will be carried out with reduced staff by improving the efficiency of AID's efforts.

The International Development Cooperation Agency was created in order to construct and coordinate national policies that promote the development prospects of the poorer countries. As discussed in the remainder of this statement, the programs and policies recommended here address the most challenging problems we face. They are our agenda for 1980.

DEVELOPMENT PRIORITIES

Developing a country is an extraordinarily complex social, economic, and political task. The major responsibility for the task falls on a country's people and government. Foreign donors have a limited, though important, role to play. Assisting a country's development requires patience and varied techniques and talents. The United States has supported development efforts through the United Nations' specialized agencies, the multilateral development banks, and our own bilateral assistance.

This document does not review and analyze those programs. Rather, it highlights our emphases and priorities for the year ahead.

1. ACCELERATE THE ATTACK ON GLOBAL POVERTY

AGRICULTURE

-- Major changes should be set in motion to carry out the recommendations of the Hunger Commission by increasing the attention devoted to agricultural development and food security by international institutions as well as by our own bilateral programs.

In the face of rapidly increasing population and widespread malnutrition, attaining minimal levels of food production and consumption spells the difference between starvation and survival in developing countries. Millions of children die annually of starvation and a billion people suffer from chronic undernourishment. A sufficient food supply supported by a distribution of income which, at a minimum, supports food consumption is not only a developmental but also a moral imperative. The recommendations of the Hunger Commission can be carried out, but only by intense efforts.

Three major types of actions will be required in the next decade. First, food production in developing countries, especially where hunger is most severe, must be increased. Second, the earnings of the poor must be increased to permit them to increase consumption of needed food. Third, the United States must not only maintain its status as a food surplus nation, but also must continue to provide financial resources to help transfer food where it is needed and to increase production.

These actions will require 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. These nations must also increase the political participation of their people. The United States should support these efforts.

In recent years, we have increased the emphasis in our bilateral AID program on agriculture, nutrition and rural development. The level of funding has grown from $474 million in 1977 to a level of $758 million requested in 1981. In international discussions on a new food aid convention, the United States pledged to contribute not less than 4.47 million tons of grain per year for food aid. Should domestic grain prices continue to rise, a larger financial commitment for food aid will be required to maintain this volume.

The lending record of the multilateral development banks also shows a substantial concentration of resources in this sector over the past three years. From 1977 to 1979 the World Bank Group, for example, devoted more than $8 billion to projects in agriculture and rural development. About one-third of the Bank's concessional resources were used for these purposes in fiscal year 1979. Within the sector, there has also been a greater emphasis by all the banks on lending that assists small farmers, helping them to increase their productivity and incomes.

We are encouraging the multilateral development banks and the specialized agencies of the UN to expand even further their agricultural programs. Of particular interest is the future of the International Fund for Agricultural Development (IFAD), which will soon need its first replenishment of funds. IFAD's initial resources came 56% from OECD countries and 43% from OPEC countries. Its lending has concentrated on expanding food production by and for the rural poor in countries with the more serious food deficits. IFAD represents a very promising prototype of OECD/OPEC/other LDC cooperation for development. Assuming continued effective performance and OPEC assistance, the United States should participate in the replenishment of IFAD's resources.

POPULATION AND HEALTH

-- We will increase our population and health programs and will give priority to countries with a demonstrated commitment in these areas to help meet their objectives.

Development continues to be frustrated by rapid population growth. If recent trends continue, the two-child family will not become the average world-wide until 2020, and the world's population will not stabilize until 2090--at 10 billion compared to today's 4.3 billion.

Population is a global problem, but the effects are suffered first and most by the poor in poor countries. Reduced population growth enhances the possibility of increased investment in productive employment opportunities and reduces the demands on food, housing, health care, and educational facilities.

The United States must do more to encourage and support voluntary family planning. Requests for family planning assistance are being made by the governments of most Third World countries, representing many faiths and cultures. The United States should continue to respond favorably to their requests. Development policies and programs must be designed to make smaller families a more attractive option.

We should provide assistance not only through our bilateral programs, which have particular strengths in the improvement of family planning techniques and in service-delivery systems, but also through other donors, such as the World Bank and the United Nations Fund for Population Activities.

World Bank President McNamara recently identified population growth as the most critical of all developmental problems. He called on member governments to undertake effective family planning services and to alter the economic and social environments that tend to promote population increases. World Bank Group lending expressly for population and nutrition in 1979 amounted to more than $114 million, an almost threefold increase over the level of $47 million achieved in 1977. In addition, the World Bank now incorporates family planning components into some of their other lending programs including those for health and rural development. The regional development banks intend to do the same.

In health we are carrying forward your commitment, first announced in May 1978 and reiterated by Mrs. Carter at the World Health Organization in May 1979, to promote health in the Third World. Drawing on your Statement of Principles, we are expanding support for primary health care and clean water/ sanitation, and for control of major diseases such as malaria. Last year the World Bank Group mounted a massive effort to provide much needed assistance for water supply and sewerage. From a base of $300 million in fiscal year 1977, its lending for these purposes tripled to more than $1.0 billion in 1979.

In primary health care, we have joined other nations in a major commitment at the UN Conference at Alma Ata, to extend basic health, nutrition and family planning services as the essential first step in a campaign to improve the health of the poor. Our bilateral aid for such programs is expanding from $125 million in 1978 to $180 million in 1980. In water/sanitation we are also working on an international effort--the UN Water Decade--and aim at providing much of the U.S. assistance through an organizational structure led by the United Nations and the World Bank.

WOMEN IN DEVELOPMENT

-- We will take the lead in encouraging the design of development plans and programs that explicitly recognize the crucial role of women.

On grounds of both human rights and efficacious development, women must receive better access to economic opportunities, education, and health care.

The United States must put greater weight behind its own commitment to women-in-development and urge others to do so as well. In 1975, at the International Women's Year Conference in Mexico, virtually all nations joined in a major effort to promote women's opportunities in the "International Women's Decade" of 1976-1985, taking as themes "equality, development, and peace." Preparations are underway for a mid-term World Conference in Copenhagen next July to assist progress and discuss opportunities for action in three areas: employment, health, and education. IDCA will help in developing a U.S. position for this Conference, and will encourage the pioneering efforts of AID in the women-in-development field.

Women-in-development is not a sector, such as energy or agriculture; it is a subject that cuts across all sectors. IDCA will work to ensure that development projects are designed to benefit women. We shall continue to help focus more attention on women in the Development Assistance Committee of OECD and the multilateral development banks. There must be universal recognition that equitable development requires the vigorous participation of women, and that this participation must be an objective at the level of project design throughout the development field.

2. MANAGE ECONOMIC INTERDEPENDENCE WITH DEVELOPING COUNTRIES FOR MUTUAL PROSPERITY

ENERGY

-- Programs are being designed to increase the amount of energy available to developing countries from their own resources.

Solutions to the energy problem are as crucial to the developing countries as they are to us. Those countries can not bear indefinitely the increasing financial burdens of importing their needed energy.

In our bilateral assistance programs we plan to increase the amount of funds spent in the energy field. In particular, we plan to begin a program for training engineers, geologists, chemists, and other scientists from developing countries to enable them to accelerate their own exploration and production. Our target is to have students enrolled in the program here by September 1981. At a recent DAC High Level Meeting, the United States urged our OECD colleagues to initiate similar programs. We will also work with the multilateral development banks and the UN specialized agencies in this area, urging that they increase the amount of funds devoted to training in the energy sector.

All of the multilateral development banks are now placing more emphasis on lending programs to expand and diversify sources of energy in non-OPEC developing countries. Over the next five years, World Bank lending for fossil fuel development is projected to reach $5.6 billion, and to support projects totalling $18.6 billion. This volume of lending is expected to result in the production of energy equivalent to two million barrels of oil a day. When hydroelectric power projects are included, about 15 percent of overall Bank lending during the next five years will be for energy purposes.

The Inter-American Development Bank will be devoting a large proportion of its lending to developing geothermal, hydroelectric, and other energy potential in Latin America over the next several years, and the Asian Development Bank has embarked on a large lending program to finance the production of primary energy fuels. These Bank funds, moreover, should encourage additional private investment in this critical area, thus improving the oil supply situation for the world as a whole.

An interagency task force has been created under IDCA's leadership to identify additional techniques for channeling private resources into exploration and development of new energy sources in the Third World. It will help obtain the most workable solutions from all agencies of our government and the business community in solving energy problems.

FINANCING

-- The United States should cooperate with other countries and international institutions to forestall debt problems in developing countries and to respond to financing problems promptly, and with adequate resources to promote adjustment without political upheaval and economic stagnation.

Financial problems in developing nations have the potential to reduce world trade, impede adequate development, and bring instability to the private financial sector. From the development standpoint, no strict lines can be drawn between financial and other problems; when a developing country suffers a balance of payments crisis the price is paid in reduced growth.

Trends in the global economy in the 1970s have resulted in major attention being given to the issue of "debt" within the context of the adequacy and direction of financial flows to developing countries. Various actions have already been taken to help these countries. Further efforts to prevent or alleviate debt problems must recognize that crises can result from overborrowing or misuse of funds, as well as from insufficient foreign exchange receipts due to changes in patterns of trade and payments. Moreover, the solutions to the financing problems of the poorest countries, which are heavily dependent on concessional assistance, are different from those of middle-income countries, which are heavily indebted to private creditors. IDCA will give special attention to the range of financial and so-called debt issues which are in the forefront of international discussions.

We will support stepped-up efforts to conclude studies and implement decisions regarding increased co-financing with private markets, program lending, and further cooperation between the World Bank and the International Monetary Fund. Additionally, further study is required on how best to relate public and private credit flows to the development plans of individual countries in order to prevent financial crises from occurring.

Dependable and predictable total financial flows to finance development should be sought. This has long been a goal on the public side. Donor countries must be assured that their assistance will be used to support efficient development efforts in which private capital plays an increasing role; developing countries should consider and plan their private borrowings in order to minimize unpredictable fluctuations in the financing available for their development.

Early efforts in this direction have been unsuccessful, although great strides have been made in collecting necessary information. IDCA will support a renewed effort in an appropriate forum, such as the IMF/World Bank Development Committee, to study and agree on means to achieve this goal.

TRADE

-- The United States should remain open to the exports of developing countries so that the developing countries may earn more of the capital required for development through trade.

The growth of the world economy is tied to the growth of world trade. Developing country prosperity fosters our prosperity. As their economies grow they are able to buy more of our goods, and exports built on their comparative advantages lessen our own inflationary pressures. Moreover, debt crises are unavoidable--even worse, unresolvable--if developing countries cannot at least bring into greater balance their import and export accounts. In fact, the North-South dialogue emerged from the United Nations Conference on Trade and Development. You have determined that development issues will be considered in the framing of our trade policy, and we intend to be constructive in this domain. The review of the Generalized System of Preferences and the implementation of the codes of the MTN are two opportunities for the United States to demonstrate our enlightened commitment to interdependence.

IDCA will raise for government-wide consideration the possibility of establishing a trade alert system, so that developed countries can anticipate and plan for evolutions in product cycles that require adjustment assistance to the minority of workers and owners who might lose out for the benefit of the country as a whole.

INVESTMENT

-- OPIC's capacity to stimulate private U.S. investment in developing countries will be enhanced, and AID's program to increase opportunities for U.S. companies abroad will be expanded.

The creation of productive employment and the ability of a nation to export are both essential to development. One of the most important means to achieve these objectives is through increased private sector investment in the developing nations. We will work to expand OPIC's abilities to stimulate increased investment in all the developing nations. Special efforts will be made to develop energy and other natural resources in these nations. In conjunction with the U.S. Trade Representative, we intend to review and seek to resolve legal and other obstacles to sound investment relationships.

Investment abroad often means exports for U.S. industry, and other benefits as the investment reaches a productive stage. In accordance with OPIC's mandate, we will pursue investments for the benefit of poorer countries with concern for the domestic U.S. effects. Additionally, we will make a special effort to maximize the benefits for U.S. business of AID's reimbursable development assistance program.

3. FOCUS SPECIAL DEVELOPMENT EFFORTS ON REGIONS AND COUNTRIES OF HIGHEST CONCERN TO THE UNITED STATES

CARIBBEAN BASIN

-- A program will be prepared to accelerate the development of countries in the Caribbean Basin.

We will help design an overall U.S. strategy for accelerating development throughout the Caribbean Basin. This program will be aimed at ameliorating social and economic difficulties, as well as at strengthening the democratic institutions of our neighbors to the South. This program will emphasize development assistance aimed at long-term economic development, as well as funds for meeting short-term needs in both public and private sectors. The World Bank and Inter-American Development Bank are also committed to supporting effective development in this region. This effort will have to be coordinated carefully with policies outside the assistance field, particularly those related to trade.

We believe that a serious effort should be made to help the Caribbean nations achieve the kinds of societies that meet the aspirations of their people.

SUB-SAHARAN AFRICA

-- The United States will cooperate more closely with other aid-providing countries and development institutions in dealing with the extraordinarily complex development tasks facing the governments of sub-Saharan Africa.

This region provides some of the most complex development and coordination challenges that the world has faced. The number of donors and the difficulty of the problems require that we work closely with the other countries and institutions that are determined to assist with the development of this very poor area. As a result of decisions already taken by you, we have begun the required consultative process. Very shortly, we will involve representatives of the recipient countries in planning a coordinated attack on their poverty problems.

HUMAN RIGHTS

-- The United States will give preference in its assistance allocations to countries that respect human rights as fundamental for achieving equitable development.

The United States must continue to lead in seeking equitable development that includes protection of human rights and the growth of democratic institutions. The United States has no long-term national interest in increasing the economic strength of countries with brutal repressive political systems. Our own institutions will flourish best in a world with a growing number of countries that allow their citizens to exercise human rights. It is, therefore, vital to the national interests of the United States to continue our efforts to protect the human rights of the citizens of the developing countries, and to encourage the creation and nurturing of democratic institutions that permit the participation of all of the people in questions involving political and economic power.

We must lead the way in stressing the fundamental concept that the basic needs of a population are met best, not by the benevolent decisions of a dictator, but by political institutions that respond to the needs of the people when they are free to express themselves. Finding solutions to the extraordinarily complex problems inherent in equitable development requires a free and open society stimulating the most inventive and flexible approach to problem-solving.

4. DESIGN A DEVELOPMENT STRATEGY TO MEET THE CHALLENGES OF THE 1980s

THIRD DEVELOPMENT DECADE

-- The United States will participate actively and creatively in designing the global agenda for the Third Development Decade which is to be adopted in 1980 and in the UN's consideration of a round of global negotiations on international economic issues.

In the months ahead the United States will be faced with extensive negotiations on development issues in the United Nations. We will be preparing for a new round of global negotiations which are likely to be launched by a Special Session of the General Assembly in August 1980 and which will deal with the full range of subjects connected to the economic health of the developing countries. We will also be participating in the drafting of a strategy for the Third Development Decade which is to be adopted by the Special Session.

It is important that the United States not view these negotiations as an unnecessary irritant, but rather as an opportunity to present our views on how the world should deal with questions concerning raw materials, energy, trade, development, technology, and finance in the decade of the 1980s. IDCA will work with other interested parts of our government to assure that on each development issue the United States will have a constructive position on how it would like to see the world economy function in the years ahead.

An important element in this effort is the design of a U.S. development strategy for the 1980s--another task of IDCA. There is no escaping the fact that, though great strides have already been taken to help developing countries, other steps will be needed in the years ahead if significant progress is to be made in reducing world poverty.

Of one thing we can be sure--the world will not be the same when the next decade ends. The question before us is how constructive a role we will play in helping to shape the outcome.

SCIENTIFIC AND TECHNOLOGICAL COOPERATION

-- With U.S. support, the United Nations Conference on Science and Technology for Development called for the creation of a special interim fund for science and technology, to be administered by the UN Development Program (UNDP). Your initiative in proposing the new Institute for Scientific and Technological Cooperation (ISTC) will enable the United States to maintain its leadership in fostering research and development of knowledge and skills for peaceful and humanitarian purposes.

The UN Conference on Science and Technology for Development, held in Vienna in August 1979, set a target goal of $250 million for the UN Interim Fund for Science and Technology. The Fund, which is to begin implementing the program of the UNCSTD Plan of Action recommendations in 1980, will have a two-fold purpose: to utilize the scientific and technological resources of the developed world to help developing countries solve urgent problems, and to help these countries develop the indigenous scientific and technological capability to solve their own problems over the long run. The Fund will coordinate its activities with those of other bilateral and multilateral programs to avoid duplication. The United States should be prepared to contribute to the Fund.

At the UN Conference on Science and Technology for Development, developing countries' representatives hailed your initiative in proposing ISTC. They saw it as a signal of recognition by the United States of the importance attached by developing countries to building the capability to solve their own problems, and of the mutual benefits to be gained from a cooperative approach to the solution of global problems.

ISTC was authorized by Congress last year. As this report is submitted, however, Congress has not yet approved funding for the Institute in 1980. Assuming that funding is available, 1980 will obviously be a year of crucial importance for the Institute. ISTC's purpose will be to promote close relations with individuals and institutions in developing countries concerned with science and technology. Up to one-third of the members of the ISTC Council, which will advise the Director on broad policy and program matters, will be drawn from developing countries.

Scientific and technological talent is one of this country's greatest strengths. ISTC should take the lead in mobilizing this talent for the benefit of developing countries. ISTC should be the focal point in the U.S. Government for assessing scientific research of relevance to development, and identifying for high priority topics of mutual interest that are most urgent to developing countries. In this regard, one of the first undertakings envisioned for it is a study of ongoing research activities in the U.S. Government, and an information system to keep this inventory accurate. ISTC should stimulate and assist U.S. nongovernmental scientific and technological institutions to give more emphasis to building up the scientific competence of developing countries, through joint research activities, improved training of their students, and assistance to their research institutions.

More and more countries in the developing world are reaching the "middle-income" level at which AID assistance is no longer appropriate. ISTC, with its problem-focus, could supplement the work of the multilateral development banks, and undertake cooperative work with these developing countries to deal with the development problems that remain.

ALLOCATION OF RESOURCES

-- IDCA will review the allocation of resources for the various development assistance programs that the United States now supports in order to prepare a U.S. development assistance policy for the 1980s.

The 1980 budget request calls for 35 percent of our development assistance to support multilateral efforts, with the remaining 65 percent to support our bilateral program. The 1970s have seen the creation of several new and worthwhile international funds. Donor countries have maintained their commitment to growth by their support of international development banks and institutions.

Although our bilateral program has grown, our commitment to multilateral efforts has been even greater. Regionally, also, there have been changes in the allocations of bilateral and multilateral donors--from the relatively wealthier to the poorer developing countries.

The complexity of the development task, the size of the capital requirements, and your commitment to cooperate and consult with Congress in the design and implementation of our development programs, mean that we must review now the patterns of assistance that we will implement in the 1980s.

Fundamental to these allocation questions--and to the credibility of our efforts to help alleviate Third World poverty--is the amount of development assistance we provide. In the 1950s and 1960s, we led the world and urged and cajoled the other industrial nations to follow our aid example; they rose to the challenge while our assistance efforts flagged. At 0.2 percent of GNP, our development assistance is near the bottom among the industrialized democracies. In real terms, it is lower now than in 1971. As you have pledged on earlier occasions, we must renew our efforts to reverse this decline.

5. <u>INCREASED EFFICIENCY AND EFFECTIVENESS</u>

-- In the case of AID, an increased assistance program will be carried out with <u>reduced staff</u> by improving the efficiency of AID's efforts.

By studying the most effective techniques used for providing assistance to countries at different stages of development, we will be able to increase the amount of assistance provided without increasing our staff. Additionally, by modifying the procedures now used in AID, it should be possible to carry out our programs more rapidly.

IDCA is preparing Development Assistance Strategies for key countries. This will enable assistance to be provided in a more rational and coordinated fashion.

Working closely with the Treasury Department and the Agency for International Development, we are reshaping an early-warning system in order to enable U.S. overseas personnel to react to the projects of the multilateral development banks well in advance of their presentation to their boards of directors. This will enable the United States to make its views known at a time and in a manner likely to be most effective.

To achieve these results will require understanding that the most effective assistance techniques depend upon the level of development and the particular problems in each country. Careful program design will insure that maximum use will be made of the private sector, both profit and non-profit, and of our own employees.

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A final word about IDCA's responsibilities--under your Reorganization Plan --to speak to the American public, as well as to Congress. It is commonly urged that development assistance should be given in spite of public opinion that is indifferent at best and hostile at worst. Although many Americans certainly share this view, we believe that an effective public case can and should be made for financial support to developing countries.

This case is partially rooted in humanitarian concerns for poor people in those countries. The public and Congressional responses to your leadership in increasing U.S. aid to Kampuchean refugees show how deep is the compassion of the American people, and how effectively it can be channeled into action. But as I vividly saw on a recent trip to South Asia, the seldom-reported plight of millions of poor people in Dacca and elsewhere is fully as grim as that facing the refugees. If the tragedy of their lives is honestly presented, public support for increased assistance should also grow.

It is sometimes argued that Americans oppose help to developing countries because "charity begins at home." But development assistance serves basic United States economic and political interests, as well as charitable concerns. As you well know, our international trade and investment, our energy outlook, our security concerns in many areas, and our overall objectives on scores of different fronts, all depend on our relations with developing nations. We should make clear the direct benefits to the United States of development help. Your initiative in establishing the International Development Cooperation Agency will help the United States be a constructive and creative leader in the dialogue on development at home and abroad.

The programs and policies recommended here were selected not only because they address important and challenging issues of concern to developing countries but also because they are feasible. They will be on IDCA's agenda for 1980 and beyond.

APPENDIX B

Report by John P. Lewis, Chairman of the Development Assistance Committee, 1979 Review: Development Cooperation -- Efforts and Policies of the Members of the Development Assistance Committee, Organization for Economic Cooperative and Development.

Part One

RENEWING THE DEVELOPMENT PRIORITY

I

DEVELOPMENT'S PLACE ON THE POLICY AGENDA

One measure of the problems of development policy is that the title of this Part of the Report, Renewing the Development Priority, first used by the Committee for Development Planning for its annual report of 1973, is even more timely now than it was then.

The key issue now is indeed priority. The interest that most of the bilateral actors – the Member governments of the Development Assistance Committee, the OPEC donors, the centrally-planned economies, the developing countries themselves – proclaim in Third World Development is genuine enough. But the question is development's *competitive* standing: where does it rank in the hierarchy of objectives that various governments pursue? A related, amplifying question is that of linkage: how integrally are development issues articulated with other aspects of governments' economic and foreign policy interests? Is development promotion essentially a sideline concern – however genuine – or are its connections with other parts of the policy picture seen to be pivotal?

Using these as its framing questions, the present chapter identifies some of the ingredients of the predicament in which the development venture finds itself at the end of the 1970s. The events of the decade and the widely differentiated responses of governments to them (which obviously are related to, but also are distinguishable from, the North-South "dialogue" that has grown up alongside in a series of global fora) have put us in a situation where a fresh thrust of determined, creative, and sustained pro-development effort *a*) obviously is needed, *b*) obviously is difficult.

Chapters II and III sketch two principal prongs that, from this point of departure, a renewed development effort could feasibly adopt. These are ambitious propositions, one having to do with linkages of trade and transfers mainly between the OECD and the so-called "middle-income" developing countries, the other with expanded aid to the low-income countries. But, it is argued, their feasibility will depend less on new mintings of political will than on clarified understanding of issues and alternatives.

Renewed priority or not, the manifold problems of implementing stated strategies effectively will remain, and Chapter IV, drawing on recent studies and debate of the Development Assistance Committee, deals illustratively with two sets of these: one clustering around the concept of so-called "basic needs" assistance, the other, around the subject of aid delivery systems. The final chapter of Part I – the part as a whole having argued for a renewal of development promotion's overall priority on governments' general policy agenda – reflects briefly on some other subsidiary agenda issues internal to the development-promotion field itself.

a) Priorities: Various, Varying, Beleaguered

A range of readings can be put on the development experience of the 1970s. With the promulgation of the International Development Strategy (IDS) for the Second Development Decade, the Decade started with the most detailed and consensual announcement of international and national development policies the world has yet formulated. Backed by the force of the OPEC price explosion at the turn of 1973-74, a new and more ambitious level of North-South dialoguing about the restructuring of the global economy into a New International Economic Order (NIEO) started in 1974 and 1975. The dialogue continues and, indeed, currently is in an intensified stage. Plainly, of course, it is intimately concerned with the issues that preoccupy and underlie it. Yet, as noted below, the dialogue has taken on an identity and life of its own – at present a troubled one.

Meanwhile, the events of the Decade have been mixed. Developing-country growth overall has almost achieved the rate targeted in 1970 – exceeding any sustained growth rate the OECD countries ever have attained as a group. But continued rapid population growth has greatly dampened the per capita gains. Total transfers from North to South by the end of the 1970s had grown fully to the level projected in the 1970 IDS (one per cent of the OECD countries' GNPs) – but in a thoroughly unintended pattern. Non-concessional, especially private bank, flows have burgeoned during the latter half of the Decade (going mainly to creditworthy upper- and middle-income developing countries) while aid – official development assistance (ODA) – has languished at less than half the level of 0.7 per cent of GNP the United Nations had sought.

North-South trade has expanded vigorously, but in less than balanced fashion. Latterly, with OECD markets sluggish and protectionist pressures growing, developing-country imports have outpaced their exports more than the Strategy had projected. The terms of trade of the non-oil-exporting developing countries have worsened. Trade within the Third World has expanded substantially but is still subject to many inertias. Third World industrialisation has been rapid, albeit highly uneven. But agriculture has lagged badly behind the goals set, especially in sub-Saharan Africa and South Asia (although most recently there has been a significant pickup in the latter region).

The points about agriculture and about the pattern of transfers are tied to (they do not wholly explain) the most disturbing aspect of the Decade's development performance – the poor showing of countries towards the bottom of the Third World's income-per-capita list. The fact that, leaving aside the OPEC countries, some dozen countries now called the "newly industrialising countries", in OECD parlance, have run ahead of the pack is not disturbing; this is the way progress would be expected to occur in any decentralised system. Nor, certainly, is it a problem that many economies in the broad middle-income range have performed well. It is, rather, that the countries which were at the bottom of the list at the start of the Decade (a very large group of some 40 countries numbering more than one billion inhabitants, more than one-quarter of the world's population) have fallen further behind relatively. In an inter-country sense, the problems of extreme poverty and of its analogues, low productivity, high unemployment, malnutrition, high mortality, and illiteracy, have become more concentrated.

The Decade has witnessed growing dissatisfaction also with maldistribution and inequities within countries. But this can be interpreted as a plus: it reflects much less a worsening of the objective situation in most countries than heightened awareness of a set of problems that, while urgently in need of attack, have been long entrenched. The degree to which most actors – developing-country governments as well as external agencies – have become more sensitised to, and more active in their efforts to tackle, equity dimensions of development has been one of the notable advances of the 1970s.

On one hand, this record of events plainly is not, so far as the development priority is concerned, a record of total neglect; on the other, the priority has been beleaguered throughout the Decade, falling most of the time far short of what a hopeful person would have expected from the 1970 IDS.

In one respect the expectations at the start of the Decade were unrealistic, and, on the part of the Group of 77, they became more so following the heady oil-price breakthrough of 1973-74. They placed too much reliance too soon on global concertings of international actions by multilateral means. The practical effectiveness of UN General Assembly, UNCTAD and UNIDO majorities was overgauged.

The net priority that development in fact has attained has remained the weighted sum of the assessments of 150 individual sovereign governments, and each of the latter is multi-faceted in its objectives. Collectively, the priorities governments attach to development promotion vary; individually their responses to competing pressures vary through time. This has been true even of developing countries themselves. Rhetorically, almost all are profoundly devoted to development, but in fact some have not organised or disciplined themselves enough to begin implementing their rhetoric with much effect. Others, for the time being, have other overriding preoccupations, whether with defence, regional rivalries and conflict, internal disorder, or communal cleavages.

Similar variances are evident in other country groups. That limited number of the OPEC countries who deserve to be called the "new rich" (those with high holdings of oil per capita) have, by DAC standards, been extraordinarily generous in their supply of aid to other developing countries – with whom they have been anxious to sustain political solidarity. But even in their case, comparative efforts have varied markedly; the range and distribution of their assistance have been criticised; and increasingly the net benefit of their total economic impact on the rest of the Third World (pricing, purchasing, employment, investment, and aid) has been questioned by their less fortunate partners.

The centrally-planned economies have been more nearly uniform in their demonstrations of concern for the economic welfare of the developing countries, especially those outside their immediate political circle: they have demonstrated very little – in such tangible forms as ODA and market access for developing-country manufactured products. Even the moral support that the centrally-planned economies, as vociferous spectators, had accorded the "77" in earlier phases of North-South negotiations has become attenuated lately – while the "77" from their side have been focusing more pointedly on the deficiencies in support coming from the Eastern bloc. Yet even within the latter group there have been significant country-to-country variations.

The phenomenon of variance in countries' development priorities has been most conspicuous of all, however, among the DAC democracies. While most governments are not monoliths, these particularly are not. And while development promotion remains for each of them a serious objective commanding significant investment, its ranking has varied widely across the set of DAC countries.

The diversity of development promotion politics in these countries is discussed later in this chapter. For now it is enough to note the diversity in behaviour. In making inter-country comparisons one should not exaggerate the significance of the familiar ODA/GNP ratio. While this is the easiest indicator available, it does not measure countries' comparative postures on trade, commodity policy, debt adjustment, or various other dimensions of development policy, including the quality and the distributional pattern of aid itself. Yet aid volume *per se* is extremely important, and in fact there appear to be few cases in which it has been a notably bad proxy for countries' overall development promotion effort.

Four DAC Members (Sweden, Norway, the Netherlands, and Denmark) have had high and rising ODA/GNP fractions during the Decade. Other medium-sized and smaller economies in the group are ranged through the middle and lower reaches of the DAC ranking. But the average has been held down latterly by the three largest OECD economies, the United States, Japan and Germany. The case of the United States has been the most damaging to overall performance, because of its size, its earlier role as all-around leader of development promotion, and the bellwether significance it has continued to have for some other Members. Having started first, the United States' effort tired first. It was the earliest to be over-sold to its parliament, breed impatience and disillusionment, and accumulate heavy burdens of legislative and administrative constraints. It has been uniquely subject to great-power distractions.

The American bilateral programme almost lapsed entirely in 1973, being rescued only by an especially creative Congressional effort that, while selectively directing United States' aid in the new anti-poverty directions that have become a positive hallmark of the Decade, tended further to constrain the forms and flow of American assistance. In the years since, allocations of American aid have continued to be skewed considerably by overriding political purposes.

Through all of this difficult experience the United States' aid programme has remained spirited and effective in many of its on-going operations. But through changes of administration and new declarations of intended expansion, it has continued to be hemmed in by low volume. The outlook now, the Report later suggests, may be for some improvement. Moreover, the other two large economies, Germany and Japan, which have had particular balance-of-payments scope for doing so, have finally begun to push ahead. But meanwhile, during most of the 1970s, the balances struck among competing policy priorities in these three large countries have netted out a lesser place for aid – and, broadly speaking, a rather more conservative approach to other dimensions of development policy – than development promoters would have wished.

Reference to difficult policy choices suggests a further reason why the development priority has been so buffeted during the 1970s: the world economy has not behaved as expected. It has thrown up an overlapping series of unexpected, stubborn, formidable issues that have tended to push development matters to one side. It would be too easy to suggest this economic turbulence as the reason for the differentiated country behaviour just noted. There is no simple correlation within the DAC group, for example, between those who have chosen to accent development and those who have been having the easiest time of it economically. But what is true is that economic turbulence has distracted the development-oriented decision-making of most governments.

Among the developing countries, the effects of turbulence have contributed to the widened gap between the poorest countries and the rest. During most of the latter two-thirds of the Decade, most of the OECD countries have been mired in various mixes of stagflation. All face fresh pushes on prices. Most are struggling to practise fiscal-monetary austerity and have been trying (not very successfully) to constrain cost-price escalation by other means. Many face troublesome external deficits, and almost all are being assaulted by the protectionist viruses that pools of unemployment and slack demand so commonly breed.

Generally speaking, these conditions had already become conspicuous in the last years of the 1970s, and now they have been worsened by the energy crisis triggered by the oil supply and price developments of 1979. This poses such a clear and present threat to the cause of development as to require separate comment in section *d)*. It has compounded a situation that had already made the question of renewing the development priority at once more urgent and more difficult than it was earlier in the Decade.

b) Development and the Larger Policy Picture

Along with priority, the other basic issue for development policy is linkage. What makes it easy for development to get pushed aside in a period of turbulence is the impression of OECD policymakers that development promotion is a department of its own, an activity which costs something, but otherwise has little to do with the health of their own economies.

During the past two years, in particular, we have had a chorus emphasizing, on the contrary, the intimate interdependence of First and Third World economic affairs. Many spokesmen have been drawing attention to the scale of OECD exports to developing countries, rediscovering the gains from trade, and advertising the potentials for mutual gains in such realms as foreign private investment and technology transfer. Interest has blossomed in three-cornered arrangements among OPEC, OECD, and developing countries that can redound to the advantage of all parties. There have been repeated calls for Keynesian Marshall Plans that, by pumping more loans to developing countries, would rely on the latters' import orders to reflate the OECD economies with (some have argued) minimal inflationary effect.

When these mutual-benefit claims come, as many of them have, from development promoters, they deserve to be audited with a measure of scepticism. One can suspect that, frustrated in their efforts to sell the development priority on its own merits, the promoters have been casting about for more appealing arguments. The fact is there has been a good deal of this. The mutual benefit claims have been too sweeping, facile and indiscriminate, and in the process the thesis has been discredited in some policy quarters.

The fact also is, however, not only that the linkages between the workings, prospects, and guidance of the developing economies and the developed are indeed importantly interconnected in a descriptive sense; at present there is a core of powerful convergent interests between them. To sort out these genuine convergences is one of development policy's great needs at present. The next chapter is an effort in that direction.

c) The Dialogue and the Underlying Issues

It has been remarked in section *a)* that the "North-South" dialogue, a phenomenon that has been continuing without interruption since the Sixth Special Session of the United Nations General Assembly in April 1974, tends to get semi-detached from the issues with which it is concerned.

The dialogue *per se* is in a difficult period right now. The "77" have been deeply disappointed with the yield of negotiations since 1974. At the same time, many of their present leaders realise that the expectations with which they began were unrealistically high. Many of the OECD negotiators are tired. For years they have been chipping away on a number of fronts – commodities/Common Fund, multilateral trade negotiations (MTNs), debt, codes of conduct, IDA replenishment, IMF conditionality – and some results of sorts lately have been emerging. These are less than the "77" wanted, but they have been costly enough to achieve so that developed country reserves of nervous, bureaucratic, and political energy for a new push are temporarily depleted.

On both sides the specialists in North-South dialoguing find their fora awkward, their constraints cumbersome, and their audience slipping away at the very time when the international calendar has provided for an 18-month-plus surge in formalized North-South talk.

The latter started with the first meeting of the Preparatory Committee for the new IDS for the 1980s in New York in February 1979. Along with further meetings of that Committee, whose recommendations are not expected to reach the General Assembly for decision until late next year, the present bunching of worldwide plenaries already has included a month-long UNCTAD V last May in Manila, and two world conferences, the first on Agrarian Reform and Rural Development (Rome, July), and the second on Science and Technology in Development (Vienna, August); next up will be UNIDO III (New Delhi, January 1980). At least two further world conferences already are booked for the near aftermath, and the intervening calendar is likely also to be heavy with special meetings of the General Assembly's Committee of the Whole and/or a new North-South negotiating group, not to speak of the regular sessions of the regular United Nations organs.

This densely packed calendar of plenaries is thus far exciting little interest from press, publics, and parliaments. Its loss of attention is evinced even more by the fact that the negotiators are evoking no more than muted, preoccupied responses from most senior ministers and heads of governments. This is true of many developing countries as well as most of the developed.

What the situation has driven many reasonable negotiators on both sides to do is simply to adopt a mannerly, time-marking posture for the remainder of the present North-South round. At UNCTAD V, for example, there was a measure of agreement on several issues including de-protection, least-developed countries, so called "massive" (mostly non-concessional) transfers, technology, shipping, and economic co-operation among the developing countries. Substantively, however, most of these were thin, preliminary agreements. The preoccupation of participants was to sustain a civilised, non-strident mode of discourse; their decisions, typically, were to consign issues to further negotiation, in part within the continuing UNCTAD machinery.

As a lasting mode for coping with stalemate, almost surely such a no-win scenario will not work. In the UNCTAD case, quite obviously, frustrations will escalate rapidly if the issue-by-issue negotiating processes that ostensibly now have been set in train fail to engage the issues. More generally, a brief of civility is hard to sustain if neither side to a dialogue sees much prospect of gain. As was already evident at UNCTAD V, extremists at the fringes of the two sides are spoiling for confrontation. On the OECD side, for example, there is no question about the urgency of curbing inflation. But there are participants in the policy debate so exclusively committed to the accomplishment of this single objective — by demand-restraining means — that they are unprepared to entertain any other subjects, including incremental accommodations of the needs of the "77", until this "prerequisite" is firmly in hand. Similarly, at the outer edge of the "77" there are counsellors convinced that any scope for incrementalism and temporising in North-South transactions is past. The hour for radical action, they argue, is at hand.

If the moderates on the two sides persist along a no-win path, such voices are likely to take over — with harsh words leading to harsh policies as North and South each retreats inward, inflicts penalties on the other, and perhaps together disrupt the international economy beyond early repair.

The dialogue *per se*, therefore, is well worth rescuing, and one of the objectives of the present Report is to contribute to that end. Part 3 is a rather careful attempt to examine the issues of the new IDS; and one purpose of this initial Part is to sketch, for the present North-South round, a possible scenario for positive convergence.

But in the end one must return to the distinction between the dialogue *per se* and the issues it discusses. However the former goes — whether forward, backward, or even if, contrary to the probabilities, it should succeed in staying in non-committal neutral — that will not be the end of the matter. The real issues of development and development promotion will remain, throughout the 1980s and beyond; and, in the tradition of DAC (which prides itself on concentrating on substance, not tactics) it is these underlying issues of North-South economic relations that the present Report mainly addresses.

d) The Current Energy Shock

As we approach the end of 1979, of all dimensions of the world's and of many countries' economic policy problems, energy is the one whose claim for priority attention has most sharply escalated. To be credible, any present call for renewal of the development priority must establish its consistency with sound energy policy.

As to the medium and longer term, there is a very substantial consistency between the two priorities, one part of it transparent, the other more complicated but also reliable.

The world in general and the OECD and Third World countries in particular face a prospect of typical energy scarcity and typically rising real energy prices for a longish middle term, while we approach, then make our main transition to, post-oil and natural gas energy sources. Most of the North and most of the South, therefore, share a self-evident interest in expanding developing countries' energy production (both non-renewable and renewable) along lines that development co-operation can importantly assist.

At a macro level, the compatibility or not of accelerated development promotion with a comparatively sombre medium-term energy outlook is less obvious. In static terms, it appears that a tighter set of energy supply constraints will accommodate less total growth to the end of the century (OECD and/or developing-country growth) than would a looser set of such constraints. Indeed, it is quite true that, taken by itself, the effect of rising real energy costs will be to place a drag on growth in both the developed and the developing countries.

However, as to the reconciliation of vigorous developing-country growth with a tight energy future, almost surely the dynamics dominate. In the first place, one can already draw comfort from the degree to which experience since the first oil-price shock of 1974 has shown that the energy coefficients of growth are by no means rigid. Under pressure of rising costs, energy-saving innovations that can support rising output per unit of energy input are broadly feasible; indeed, achievements to date in this regard no doubt would have been more striking if, after the first shock, the real price of energy, instead of edging downward, had kept pressing upward slowly. With the resumption of such pressures, energy-saving innovation can be expected to accelerate. Secondly, and more fundamentally, it is argued in Chapter II, first, that the more urgent and endemic problems of many OECD countries (including that of inflation-proneness itself) now are clustered on the supply side of those economies and, secondly, that among the limited policy tools available for addressing these problems, measures enhancing North-South trade are among the more promising. Under this reasoning, there is a direct convergence between the development priority and the kinds of systemic changes within the OECD economies most likely to enhance energy-augmenting and energy-saving innovations.

The question of energy-development compatibility, therefore, comes down to the short run. The supply and price changes in oil during the last few months are having a traumatic impact on both OECD and on the non-oil-exporting developing countries. Estimates published by the World Bank put the widening of the balance-of-payments deficit of oil-importing countries[1] arising from higher oil prices at a figure of the order of $10 billion. The effects of the deterioration in their trade prospects resulting from slower growth and inflation in the industrialised countries could be of the same order of magnitude.

Given the OECD side of this picture and the austerity-mindedness it prompts, many policymakers may feel this is a bad time to be advocating a new push on development. To this a development promoter can make a number of replies.

First, if the oil-price increases have made it harder for the OECD countries to respond to developing-country needs, they have just as clearly (as the Secretariat points out) accentuated those needs in the same, near-term time-frame, especially for flexible, quickly-flowing resources. Moreover, it is not enough to say that the developing countries' oil-aggravated requirements should be passed along to the OPEC countries as additional aid indents on their increased surpluses. Expanded OPEC aid is certainly needed, and, one hopes, to be expected. Yet the DAC governments collectively, via their bilateral programmes and their contributions to multilateral programmes, remain the

1. Identified here as developing countries other than in Europe and other than those which are net oil exporters.

residual donors in the piece: it is they who, partly as a function of their relative income-and-product capacity to respond, partly out of habit grounded on concern, are likeliest to feel an obligation to see that a minimally adequate response to an unforeseen squeeze on the non-oil-developing countries is pieced together. This was their reaction in 1974, and, in this respect, the circumstances of 1979 are not materially different.

Second, the time span of the development needs which require renewed address (although, as just suggested, these needs themselves have been aggravated by the current energy shock) stretches far beyond the short run. Most of the consequences of the development decisions that need to be taken, in terms of resource and trade flows and other changes, will spread to the second half of the 1980s and later. But the formative decision-making should move ahead now, not be shelved until the present energy crisis has passed.

Third, some OECD policymakers will conclude that the case for development renewal is so strong, both on intrinsic grounds and as a matter of long-term self-interest, that its implementation deserves to be started without delay even by those governments adopting highly austere budgetary and other macro-economic responses to the short-run energy-demand-management problem. Quantitatively (this reasoning would run) the needed incursions on the general policy patterns would be small, and the benefits of getting the required longer-term development adjustments started sooner than later would warrant making them exceptions.

Finally, responsible near-term energy policy may not in fact necessitate the degree of generalised austerity just hypothesised. To make this point is to venture briefly into the realm of short-run macro-economic choices in a way that lies beyond the competence of this Report. However, such choices will have great significance for the running room that development policy will be perceived to have during the next couple of years.

There are some OECD countries, at least, for which the new oil-triggered spurt in inflation reflects a temporary maladjustment in one commodity market. The rest of their economies outside of oil are ready for comparatively non-inflationary expansion, and by the medium term, through a combination of supply expansion, conservation, and gradual upward price adjustments, the oil market itself can be brought back into balance. Under such circumstances, to respond to the present energy crisis by slamming on aggregate-demand brakes harder than otherwise would be appropriate is a costly policy choice compared with the imposition of specific but temporary constraints on the demand for oil in particular. The latter alternative would save jobs, inject less cyclical turbulence into the system, and could have at least as good, and more orderly, anti-inflationary outcomes. Along with these other advantages, the second approach also would be more accommodating to the development initiatives that need pursuing.

One further remark about the reconciliation of energy policy and development policy is in order. For the reasons indicated, there is a near-term need now for fresh consultations among the OPEC countries, the OECD countries and the oil-importing developing countries about how to cushion and make more orderly the latter's adjustments to the latest energy-price shocks. At this writing, moves toward such consultations seem to be shaping. The implication of the present analysis, however, is that the cushioning contrived should not be treated, simply, as disembodied, expedient, short-term action. It should become an aspect of – it should be "faired" into – a broader policy design (on the part of OPEC as well as OECD countries) to review the development priority in more sustained and durable fashion.

e) **The Politics of Development Policy**

To call for a renewal of the development priority implies two things: first, that there is a need for such a change; second, that official actors have a capacity to make the change. The first in summary fashion has been established: the priority, although not wholly neglected during the 1970s, has been buffeted and eroded. Recoupment is needed, and quickly, for getting the North-South dialogue off dead-centre – which has become a phenomenon and a problem in its own right. It is needed even more because of the abiding importance of the substantive issues at stake, namely, the *per se* value of greater transnational and intra-national social justice and the linkages (clearly understood, not puffed) of development promotion to other economic goals. Further, energy-related considerations need not inhibit a renewed push on development in the short run, and they only fortify the pro-development case for the longer term.

The assumption that such a policy shift is politically feasible, however, may provoke arguments. These, of course, are matters that each government must sort out for itself. Yet the findings of the Development Assistance Committee's continuing, quite searching country-by-country reviews of its individual Members' assistance programmes suggest two comments on what might be called the politics of aid – and, by extension, on the politics of development policy.

In the first place, it is abundantly clear that such politics are country-specific. In some of the DAC Members, notably its front-runners (Sweden, Norway, the Netherlands, and Denmark) what is, from the viewpoint of development promotion, a benign kind of circular causation works: the public pushes the parliament which pushes the government which, having significant development-promoting achievements to report, reinforces public attitudes. In a number of other countries the circle is negative: governments sense themselves to be constrained by parliaments who feel constrained by publics; and the parliaments tend to curb the governments' means for influencing parliamentary and public opinion.

It is probably wrong to attribute much of such variance to primordial causes. It does reflect different recent histories. But the point is that these are real differences with which particular governments must grapple. To level generalised complaints about "failed political will" against those who must work within a framing of what can be called "negative" development politics advances matters little.

That is our finding at the level of the broad political environments within which different governments operate. The second finding, however, is quite different. It concerns the location of initiative for incrementally altering the circular flows, either positive or negative, of development politics. On this point the recent DAC country reviews have been quite clear. Almost always such initiative lies with the government in question itself.

At given points in time, the different development priorities that governments express reflect their *own* current assessments of competing claims, not simply the mandates of contrary-minded publics or parliaments; and typically it is they who exercise the option to damp down positive, self-reinforcing flows of pro-development politics (as in both the Swedish and Norwegian cases recently) when they sense the need to accord greater scope to other national objectives. Similarly in the other cases, it is the national administration itself that has the best chance of leaning against, perhaps even reversing, negative internal interaction. Development politics are not wholly deterministic, and national administrations are not helpless. Usually it is within their short-run capacity to change the course and pattern of the politics incrementally – within limits, and if the purpose of the administration itself is clear.

f) Needed: Two Breakthroughs – and a Good Deal of Commonsense

The renewal of priority advocated here could have a profoundly positive effect on Third World prospects, on OECD-Third World interaction and, incidentally, on the North-South dialogue, including the IDS negotiations now in progress. Yet the demands it would place on policymakers are not radical. For most governments, "Southern" as well as " Northern", they should lie within the boundaries of political feasibility.

As noted, the approach outlined in the balance of Part I would have two main components. First (as discussed in the next chapter), it behoves the leaders of both North and South to strive for a clearer, less obstructed view of the respective interests they share in the future flow of North-South trade and facilitative finance. Second, as Chapter III argues, a reinforced commitment should be mustered to assist the poorest countries, especially those which, with an eye to their internal equity problems, are making reasonably serious and focused efforts to help themselves.

Beyond this, even if there can be sufficient breakthroughs on these two fronts to give shape and thrust to a renewed global development effort, most of the problems that are the normal fare of development professionals will remain. These issues – of " implementation" in the broadest sense – are treated most selectively in Chapters IV and V, and somewhat more extensively in the balance of the Report.

Implementation, of course, is critically important. It requires, most of all, the commonsense of experienced, sensitive people organised into sensible structures and equipped with reasonably flexible procedures which facilitate action rather than blocking it. Bad implementation can ruin a good strategy. But good implementation cannot rescue a bad strategy, and at this point it is above all strategy – its scale, seriousness, and broad content – that requires attention.

II

MARKETS, TRANSFERS, AND THE NEW INTERNATIONAL ECONOMIC ORDER

As noted, during the past couple of years there has been a great stir of talk about the mutual benefits North and South can jointly derive from the promotion of development. The discussion has had a mixture of themes and time-frames. It has proceeded on both macro and micro levels and often has seemed confused and simplistic. It has provoked much scepticism, especially from developing-country spokesmen. Yet the latter embraced the approach at Manila. Indeed, as a policy hypothesis, the mutual-benefits contention has gathered on-balance official supporters at least as fast as analytical brickbats.

The present attempt to sort out the subject starts for the sake of completeness with a brief reference to certain sectoral convergences between Northern and Southern interests that are at once important and comparatively straightforward (one, in the field of energy, already has been noted). However, the focus of the chapter is on the macroeconomics of mutual interest. These are the slipperier, more confused aspects. Moreover, if the argument below is right, namely, that both South and North have tended frequently to blur their readings of their linked interests in transfers and trade, then the area has a good potential for generating fresh policy energy from both sides provided that the basic convergences can be clarified.

a) Sectoral Mutual Interests

Of the three sectors most commonly cited in which developed and developing countries share self-interests in expanding the output of the latter – energy, food and raw materials – energy is an open-and-shut case.

The case of food production is almost as clear. To be sure, there is at present still some disjuncture between agricultural protectionism in Europe, North America, and Japan and the calls these same regions are making upon, and the assistance they are giving, the Third World to increase its output of food (and, indeed, of other agricultural) crops. But few serious analysts doubt that existing production trends will lead to global food shortages before the end of the century if the effective demand of the Third World is pushed up, not only by the minimum population growth that is likely but by the minimum income growth and improvements in income distribution that are desirable. Nor is there much doubt that, in terms of real resource costs, the easiest, most globally efficient places in which to get the extra outputs needed to close these prospective gaps will be some of the poor-country regions in which the underlying physical conditions are favourable and the scope for improvement is still very great. Thus, as to developing-country agricultural promotion, the interests of OECD consumers who want to avoid longer-term food-price inflation clearly coalesce with those of developing countries, who want, not only also to eat, but to achieve a closer approach to food self-reliance.

Raw materials are a slightly trickier case. The developing countries, jealous of the prerogatives and opportunities of proprietorship, are not swept off their feet by developed countries' demand for access and for reliability of supply. However, with the desirability of more orderly, price-smoothing arrangements for commodity marketing now having been accepted in principle, and with greater pragmatism about foreign private investment and transnational companies beginning to crop up on both sides of the dialogue (about costs as well as benefits, rules and responsibilities as well as rights), here too the prospects for convergence are good. Suppliers and users share an interest in mutually acceptable transactions that augment investment in materials production.

The geography of these sectoral interests, it should be noted, does not conform to the middle-income/low-income dichotomy. Thus the sectoral portion of the mutual benefits approach mitigates a characteristic of those macro-economic versions to which we now turn. The latter do tend to concentrate on trade and capital transactions with the middle-income countries. This, of course, is not a purposeful discrimination; it is only because the less poor, more rapidly-growing developing countries are by and large the ones that have substantial export potential for penetrating OECD markets, especially with manufactured products, and, largely for this reason, are sufficiently credit-worthy to attract sizeable flows of private and other non-concessional capital. Nor is the distinction between the low-income and the generality of the developing countries in this regard anything like watertight. India, for example, by all odds the largest of the low-income group,[1] has a broad array of manufactured exports and has demonstrated a good deal of selected commercial credit-worthiness.

Nevertheless, as we turn to the macro-economic connection between North and South it is well to remember it is mainly an OECD/middle-income-country connection – which is why any balanced and adequate development strategy must, as the next chapter underscores, contain a separate, ODA-dominated component aimed at the poorest countries.

b) Massive Transfers to the Rescue?

"Massive transfers" in current parlance is a code-word for non-aid flows, even though, as we shall be noting, various massive-transfer schemes would require bits and pieces of aid sweetening that could add up to a considerable indent on the world's scarce supplies of ODA.

Proposals for massive transfers, for "new Marshall Plans", for "stepped-up investment" and/or for new medium- and/or long-term lending facilities (all mainly non-concessional) have been appearing from various quarters during the past couple of years: from DAC Member countries, prime ministers, senior parliamentarians, from staffs of multilateral agencies, from various private policy analysts, and from a few developing-country sources, notably Mexico and Venezuela. All have emphasized the potential, presently, for direct benefits to the sending as well as receiving countries.

The commonest popular understanding of these claims has been that sending surplus funds to developing countries who are prepared to invest them partly in acquiring extra imports from OECD economies is a good way to reflate the latter. According to some understandings, the claim has been that this mode of reflation could and would be concentrated mainly on under-employed industries and firms in the OECD countries, and therefore should inflate prices less than would the alternative of spending the money at home. According to others, the advantage would be primarily budgetary; the transfers would not need to add as much to public deficits as would equivalent forms of domestic demand augmentation.

During the latter half of 1978, enough questions were raised in both official and

1. The array of developing countries considered in this Report does not include China.

academic circles about the macro-economic assumptions of this family of proposals (along lines discussed in part in the next section) to slow down and scale down their adoption. Yet the inclination toward comparatively sweeping attention to massive-transfer possibilities has persisted. In DAC itself, Members, almost deliberately leapfrogging the macro-economic issues that divided them, agreed that the Committee and the Secretariat serving it should get on with a practical review of what a reformed transfers mosaic would look like. As indicated, the developing countries, putting aside their scepticism, decided collectively in their preparations for UNCTAD V to join the call for massive transfers (taking pains to emphasize, however, that the latter should not be misinterpreted as a substitute for the needed expansion in ODA). At Manila an agreement broadly endorsing, and calling for intensive study of, the massive-transfer idea emerged as one of the more positive and conspicuous elements in the resolution negotiated in the area of finance. As the result of this and of similar guidance given elsewhere – by the United Nations General Assembly, the World Bank/IMF Development Committee, and the OECD Council of Ministers in June 1979 – intensive, interacting studies of non-concessional flows, alternatives and possible packages are underway in an array of secretariats including the World Bank, IMF, OECD and UNCTAD.

This is all to the good. It means that by the publication date of this Report we should have in hand a comprehensive set of analyses of possible combinations of reformed and/or augmented non-concessional flows, cross-referenced, especially in the OECD case, with aid needs and prospects. But in considering the uses that the formulators of development policy may make of this information, one does well to distinguish between two aspects of the transfers "issue".

At one level, there is, as it were, a *per se* transfers problem of a maintenance and repair kind. This the international community cannot safely ignore even if, failing to opt for the intensified development promotion herein advocated, it wishes only to maintain the recent status quo.

What happened, broadly, when the developing countries were struck bodily by massive increases in import prices (especially in oil, food, and fertilizers) in 1973-75, at a time when the same oil-price increases helped push the OECD economies into stagflation, was that developing countries able to do so began to borrow very heavily in international capital, especially the Euro-currency, markets. The greatly augmented flow of credits on commercial terms allowed them to sustain their own rapid growth, to sustain their imports, and therefore also to shore up the OECD economies. Lacking better alternatives, this surge of private, especially commercial bank, credit was helpful to both North and South. But it also stored up some problems that are now becoming worrisome.

Although the volume of debt generated by these flows has risen radically in absolute terms, in the aggregate it has remained well within the limits of the developing countries' debt-servicing capacity as represented by their export earnings – in part because of intervening inflation, in part because of increasing developing-country exports, especially by the heaviest borrowers. (The rapidly industrialising countries who borrowed the most also exported the most. However, latterly – and this is a matter for concern in section *c*) – the combination of further economic sluggishness and growing protectionist pressure in the industrialised countries has been dampening developing-country exports to the OECD area.) As discussed in Part 2, a few countries have run into serious debt problems – reflecting, often, poor economic management on their part and imprudent lending by commercial banks. But there is nothing yet ominous or non-sustainable about the total flow.

The structure of non-concessional flows being carried into the 1980s is fragile, however. The maturities of much of the indebtedness are short. To sustain the net flow, a great deal of rolling over of credits therefore is needed in the first years of the 1980s and probably beyond. Some banks in some countries are beginning to face administrative restraints on further lending to particular borrowers. In short, as the World Bank's latest *World Development Report* argues in a careful, non-alarmist way, the structure looks disturbingly vulnerable to liquidity crises.[2] And now all of its potential problems are due to be aggravated by the increased payments deficits occasioned by the new oil-price rises.

The structure of transfers therefore urgently requires a variety of reforms that will make the existing flow more stable and reliable. Steps appear to be needed to lengthen average maturities, to shift some of the commercial banks' share of the direct lending burdens to the international institutions and to increase, whether by guarantees or co-financing arrangements, the availability of official reinforcement to responsible private lending. There is much support also for increasing the share of equity financing in the total flows, for shaving the cost of (mainly non-concessional) borrowing, perhaps by interest-rate subsidies, and for broadening the range of middle-income countries (MICs) having effective access to non-concessional sources. The topics just listed are ones the current studies of the transfer issue are addressing. Thus policymakers need the studies for attending to the maintenance-and-repair side of the transfer issue in any case – simply to support existing trade and growth patterns.

However, what the "massive transfers" thesis has in mind, of course, is more than this. The call is for augmented financial flows to accelerate, not just to sustain, the growth of the MICs, and thereby accelerate their buying from the industrialised countries. Here is where, in the present view, although the conventional advocacy of the approach reaches the right answer, it often gets there by the wrong route, thereby blurring and slighting the strongest set of economic self-interests that Northerners and Southerners share.

c) The Macro-Economics of Transfers and Trade

The trouble with the "massive transfers" thesis as it is most commonly understood is that it is too simplistically Keynesian. It posits that the central economic problems of North and South at present are aggregate demand problems and that the benefits each can gain from interaction primarily have to do with the recycling of demand. In letting ourselves think this way, we have gotten the cart before the horse. The core of the North-South economic convergence lies in something as old-fashioned but abrasively current and dynamic as the workings of markets, which *tend* to be efficiency- and productivity-promoting and therefore growth-promoting all around, even though they have their flaws, and they always are and must be managed by governments. Safeguarded and augmented transfers can indeed become a pivotal part of a convergence scenario, but they should do so as an instrument – a catalyst – for triggering growth-enhancing and growth-facilitating gains from trade.

To assume that a satisfactory strategy for promoting the growth that both developing and developed countries need can consist simply of channelling more demand to the former, that can come home to roost in the form of more export orders on the latter, ignores, on the developing-country side, the growing imbalance between developing countries' debt burdens and their exports. As indicated, the pattern is not yet ominous. But it would become so if, failing renewed and more effective efforts to open OECD markets to developing-country processed and manufactured products, the recently diverging trends between transfers and trade were extrapolated very far into the future.

For the OECD countries, simple demand therapy misses what many analysts now regard as the core of present growth problems in most of the industrialised countries.

2. *World Development Report, 1979*, World Bank, Washington, D.C.

This is that complex which economists lump together as " supply-side " issues: rigidities, inefficiencies, weak competition, internal and external protectionism of various kinds – all of which sap gains in productivity. Moreover, the inflation-proneness, which is the worst present bane of the OECD economies, in large part reflects a particular set of these supply-side phenomena: cost-price-escalating institutions and practices that, by pushing up prices well short of full employment, constitute the worst blocks to governments' promotion of growth via demand expansion.

The crudest version of the demand rationale for massive transfers – namely, that the money can be willed or designed to come home to roost in those most beleaguered, often sickest, OECD firms and industries with the largest surplus capacities – is not merely opaque to the supply-side issues; it is positively hostile to needed structural adjustments. It amounts to crypto-protectionism.

Plainly, the economic policymakers of North and South need a better theory than this of mutually beneficial interdependence. Just as plainly, one is available – centring on trade, viewing augmented transfers as a temporary facilitator. The argument made in the next two sections is that, for different reasons in each case, neither Southern nor Northern policymakers yet are seizing on this rationale with the urgency it deserves.

d) **The Market and the " 77"**

At Manila the most widely remarked failure of UNCTAD V was the lack of agreement on an overarching resolution about " interdependence". This was not because of an earlier alleged conflict between two competing definitions of interdependence – the South having emphasized the interdependence between different policies and instruments, the North, the interdependence that specialisation and exchange creates between different geographic jurisdictions, including countries and groups of countries. By Manila it was well understood that this was a non-dispute: both concepts were valid and complementary. Instead, the clash was over the content the two sides were prepared to read into these interlocking brands of interdependence. As to the interpenetration of different policies, the Group B countries were reluctant to accord as large a continuing role to UNCTAD in monitoring inter-instrument reconciliation as the " 77" wished. But the main difference (and, for present purposes, the relevant one) was over the means for effecting desired changes in spatial, i.e., North-South, interdependence.

At the level of generalisation, the desired changes themselves were not in dispute: the world needed the major " structural adjustments" in the international economy that in broad terms have been docketed since the promulgation of the NIEO goals. But whereas the OECD countries stressed market processes as the main means for moving toward these goals and noted the largely market-actuated shifts in the international division of labour that had already occurred during the 1970s, the " 77" insisted on a much more decisive kind of remodelling by some sort of international command system. The collectivity of governments, they argued, should not wait for the market; they should seize events by the forelock and, superseding the market as necessary, start, for example, implementing the " Lima target" without delay (the goal for the developing countries to have 25 per cent of the world's manufacturing capacity by the year 2000 adopted by a UNIDO plenary five years ago).

The " 77", to be sure, speak with two voices on this subject. At the same Manila Conference they demanded – and, in comparatively broad terms, eventually got – a resolution deploring, and looking toward future reductions in, protectionism. Nevertheless the case is strong that the " 77" do themselves a disservice by not recognising more clearly that a further unleashing of the international market mechanism is at this juncture the most promising means for moving toward their NIEO goals.

The " 77" have good reason to be impatient. For 150 years prior to 1950 their forebears watched the Northern countries widen out a lead in average per capita economic welfare over them that was wholly unprecedented historically. They had a remarkable lot of catching up to do.

Moreover, it was not unnatural for them to perceive that history had rigged the game against them. One does not have to enter the hoary dispute over whether their underdevelopment had been imposed from outside or was simply a matter of late start to grant that the relative economic aggrandisement of the richer countries had been closely coupled with political aggrandisement; or that the North's political-economic dominance had permeated the web of Northern transactions with the South; or (putting matters in Myrdal-Prebisch terms) that there had, indeed, been a centre-periphery dynamic at work.

This history explains much of the scepticism of Southerners about the international market mechanism. Many do not distinguish between the market as an abstraction and the real market institutions they have experienced. And they perceive the workings of the latter to have been tilted in favour of the economically powerful – in the cases, among others, of shipping conferences, of ladder tariffs that discriminate against developing-country processing, of quantitative restrictions on imports of labour-intensive manufactures, of multinationals' transfer pricing and restraints on subsidiaries, and of knowledge imperfections in the international technology market that weaken the bargaining position of buyers.

Furthermore, the very tightness with which the OECD countries rhetorically embrace the market abstraction itself may have tended to turn many of the "77" against the idea.

Yet, with all this said, the fact remains that the "77's" failure to invoke a mainly market means of NIEO implementation is self-defeating.

For one thing, there is a theoretical case. Within national economies – within developing countries and socialist countries as well as the industrialised "market" economies themselves – there has been increasing appreciation in recent years of the social efficiency of market processes. The inherent characteristics of these processes – among them, comparative decentralisation of decision-making, dynamism, self-adjustment toward social outcomes the individual actors need not be purposed to seek – can be distinguished from the particular framing of rules and conventions that any real-world market must have and from the particular distortions and imperfections that all real-world markets do have.

In the international market, like any other, the rules can be altered and the distortions and imperfections can be worked on. But meanwhile, in an era when regimes of all ideological hues have been noting the limited capacities of centralised command structures for detailed planning and implementation, it would be strange not to see the increasing reliance on markets as useful servo-mechanisms being extended to the international arena.

But it is the practical case for greater developing-country reliance on market processes that is compelling. First, there is a predominant correspondence at present between the structural-change purposes of the developing countries and, as it were, the "inclinations" of the international market. What the developing countries want in the way of an altered international division of labour – especially the generality of middle-income countries – is what the market will deliver if only it can be allowed to work.

Second, unconstrained market adjustments can be quite rapid. By definition they are indeed incremental – but the increments (witness the well-known cases of the "newly industrialising countries") can come in gulps. Moreover, being decentralised and self-adjusting, market processes do not await political or bureaucratic decisions; to the extent they are allowed to work, they are always pushing in their mostly pro-efficiency, structural-change directions between rounds of political negotiations. There could, to be sure, be some remaining centre-periphery drag on adjustments. But now, with substantial metropoles of modernising activity having emerged in the developing world itself, even the centre-periphery dynamics would not be as systematically anti-developing-country in their effects as in the original Myrdal-Prebisch hypothesis.

In short, the market, if allowed to work, can turn a fairly sharp corner. The world economy may well be in a period of profound historical change and disjuncture, as a number of thoughtful analysts in both North and South surmise. But as to how we get from here to there, the best available answer appears to be the market.

This leads to the decisive practical consideration: the existence of a true and accessible alternative almost surely is illusory anyway. A command approach to the problem implies a global authority structure that simply does not exist – and, in a system of 150 jealously sovereign nation states, will not for the foreseeable future. For present policy purposes, demands for a supra-national, supra-market system of authoritative and effective world economic planning are like an inversion of the old story of the emperor's clothes; those making such demands evidently see a suit of imperial clothes, but, for better or worse, there is no emperor inside. The market is the *only* main mechanism available for implementing structural change, and the "77" would do well to make the most of it.

Now for the qualifications. Market and authority structures are not actually antithetical. They always interpenetrate in some measure. The freest, most open, market cannot function without some bounding by an authority whose rules the participants accept.

So the foregoing argument is one of degree. All markets are to some minimum extent "managed" by authority. In the existing international market, management has, *de facto*, been centred in the advanced economies. What the "77" can be expected, and indeed are trying, to do is to alter that management. They want more voice; they want to inject more information into the market, thereby reducing its imperfections; and they want to remove as much of the anti-developing-country tilt from as many of the tilted market rules and conventions as possible.

In this process there will need to be consideration also of which interventions by particular governments – Southern and Northern – will be acceptable to limit, dampen, or alter the impact of market adjustments on particular sectors and activities. There always is some of this in real-world markets; some interventions distort market processes less than others; and, in general, the market's self-adjustments on behalf of efficiency and structural change can continue to work usefully in the remaining economic space.

Yet the self-interested bias of the developing countries should be to limit such market-softening interventions. Their first inclination may be to concentrate on which exceptions to the rule of the market they want on their own behalf – generalised trade preferences, infant industry protection, various security-related exceptions, measures to screen out consumer imports perceived to be carriers of unwanted lifestyles, and selective screening of imported technologies and of the transnational companies and other agencies that bear them. But surely the strategic thrust of the developing-country concern in this area should be, instead, to bargain for minimal and declining interventions from the side of the developed countries.

e) **The Market and OECD Countries**

In view of what has been said about the OECD countries' rhetorical embrace of the market mechanism, it might seem redundant also to direct preachments about the benefits of trade at them. But the OECD governments, of course, are caught in an ambivalent situation.

On the one hand, not only is there no question about their collective endorsement of pro-open-market principles, for example, in their pronouncements at OECD (whose secretariat has produced a formidable set of papers latterly documenting the net benefits of trade);[3] many of their recent actions have been animated by these principles.

At OECD itself, Ministers have entered into a series of annual "trade pledges" against new protectionist measures. Moreover, given the unexpectedly difficult economic period through which the Tokyo Round of MTNs was pursued, the on-balance achievements of OECD governments in that prolonged transaction were heartening. To be sure, what emerged from the Round is a set of compromises that now require attentive and determined follow-up. But it created more comprehensive structures and processes for policing and scaling down trade restrictions – if the actors choose to use them that way rather than as devices for proliferation. The Tokyo Round lowered tariffs substantially and, while it made smaller than average reductions in tariffs of particular concern to the developing countries, and left the latter threatened with an unresolved "safeguards" problem, and (worst of all) did not touch existing quantitative restrictions on such items as textiles, clothing, and footwear, it entrenched and extended the principle of preferential treatment, especially for the poorest developing countries. It extended the reach of GATT discipline to several varieties of non-tariff barriers to trade; and in these areas (government procurement, import licensing, customs evaluation restrictions, and subsidies to exporting and import-competing industries), it established surveillance and dispute-resolving machinery for those concerned to use it.

On balance the Tokyo Round negotiations did a substantial job of holding mounting protectionist forces at bay, and they did a fair job of attending to the interests of the developing countries – many of whom, although now dissatisfied with the results, were not very active on their own behalf while the negotiations were under way. Still on the plus side of the picture, also in the past year or two, there have been several cases where, in specific commercial-policy actions, particular OECD governments have opted stalwartly for anti-protectionist or least-protectionist decisions.

But the other side of the picture, of course, is that there have been a number of opposite such cases very recently – in textile products, in electronics, steel, and shipbuilding, for example. In selected manufactures of great importance to the developing countries, trade obstructions have been initiated, increased or broadened. As mentioned, agricultural protection in Europe, North America, and Japan has been re-examined and reaffirmed. In general, with prolonged or expanded unemployment, protectionist pressures have been rising formidably.

The dilemma of the OECD governments is obviously in part political. The voices of those demanding protection are focused and insistent – far better organised, it is often remarked, than the consumers and exporters who are the direct beneficiaries of trade. But in the near term the problem in some measure may be in OECD national administrations themselves. As the record shows, they have expended a great deal of political will on the defence of market openness and have taken a battering in the process. There is a great sense of relief that the MTNs are over and notably little appetite for pressing forward. Meanwhile, it is the nature of politicians (indeed, is to their credit) that the problems of communities, firms, and workers who find themselves beleaguered by foreign "low-wage" competition – some of them, among the least-advantaged, most vulnerable groups in their own economies – are seen as vivid human problems. In this view, the issue becomes not a clash between principle and political expediency, but a conflict of two worthy values – the one generalised, abstract, and economic, the other particularised, social, and poignant. It is easy to feel that the first now has had its innings, and that it is time to turn to the second for a while.

In the present view, any such relaxation from the cause of trade liberalisation would, at this particular juncture, reflect a fundamental misreading of the needs of the

3. *The Impact of the Newly Industrialising Countries on Production and Trade in Manufactures, Report by the Secretary-General,* OECD, Paris, 1979; *The Case for Positive Adjustment Policies. A compendium of OECD Documents 1978/79,* OECD, Paris, 1979.

OECD countries. Economic ministers of these countries should be striving urgently, and should be pressing anew the limits of their political constraints, further to open their markets to the developing countries, not for the sake of virtue but as a matter of the most pivotal and expedient self-interest.

The typical textbook explanation of why this is – that trade improves productivity, benefits consumers – in a sense is correct if one reads enough into it. But it is far too pallid. A proper explanation should start with the nature of the economic malaise in which most of the OECD Members find themselves. The malaise lingers; in the judgement of most observers it is more than cyclical. It is not because of a lifestyle kind of aversion to growth; on the contrary, the anti-growth lobby has quieted, and most OECD economics ministers would opt enthusiastically for faster growth if it were acceptably non-inflationary (just as most economics ministers of the "77", temporarily putting aside concerns about widening per capita disparities, and thinking of the implications for their own exports, etc., also wish to see the industrialised countries accelerate).

Nor are the blocking factors, at least to the end of the century, likely to be the physical "limits to growth" that worried us so much in the early 1970s. The planet continues to be finite, of course, and it remains true that global population expansion needs to decline to a replacement rate as rapidly as policy-assisted demographic transitions in the developing countries can manage. But various comprehensive canvases of possible resource constraints (the Leontief projections for the UN, the recent *Interfutures* study at OECD) find no clear physical roadblocks in the medium term.[4]

This finding is relative, of course. The real costs of various critical inputs and/or their substitutes may rise, placing a drag on gains in outputs over inputs. The overwhelmingly most important as well as visible such case is that of petroleum and natural gas. And yet, as implied in Chapter I, even here known technologies exist, with known or safely projectable cost characteristics – on the sides both of energy conservation and energy production-cum-substitution – that, barring major further political disruptions of supplies, should be able to keep the energy supply-demand gap closed at quite modest growth costs over the medium and longer terms.

Which brings us to what *is* the core of the malaise, namely, lost dynamism. Even the present oil problem is of a scale that a decade or two ago the American, European, and Japanese economies would have countervailed in stride. All of them had enough competitive redeployment of resources in train, enough shifts of labour and capital from lower- to higher-productivity industries and firms under way, enough productivity-raising innovations and investments in the pipeline to swamp such specific retardants to aggregative performance. What make many of these systems now sound like muted versions of 1930s-style secular stagnation are sluggish innovation, dampened investment, lock-ins of resources to low-return uses, impaired reallocation, attenuated competition and fractured markets – in short, weakened propensities for what OECD has taken to calling "positive adjustment". Plainly these are not newly-invented maladies. There always have been numerous major elements of inflexibility in our systems, most with powerful, often virtuous, social rationales. But collectively such inflexibilities have accumulated lately. Moreover, it is precisely in a period of slack growth (into which most of the OECD countries have been pushed, partly by external factors, during most of the 1970s) that many of these supply-side inhibitors to growth tend to flourish.

That leaves, as to the malaise, the clinching phenomenon, which, as noted earlier, is itself a subset of the supply-side problem: inflation-proneness. The complex of cost-price escalating mechanisms and institutions that have been entrenched in OECD countries during the past generation tends to ratchet external price shocks into internal

4. W. Leontief, *The Future of World Economy*, UN, New York, 1976; *Facing the Future; Mastering the Probable and Managing the Unpredictable*, OECD, Paris, 1979.

price structures; in self-amplifying fashion, via the effects of rising expectations of inflation, it has been worsening the trade-off between unemployment and inflation. This susceptibility to inflation, of course, is the aspect that makes the inflationary costs of attempts to unclog the rest of the system by surges of demand unacceptably high.

Where, then, does trade with developing countries enter this picture? Conventionally as an effect: the standard observation of most diagnoses of protectionist pressures is that the best antidote will be accelerated growth and diminished unemployment in the developed countries. But in fact we have a chicken-and-egg phenomenon: trade needs growth but also (this is the nub of the present thesis) growth needs trade.

Politically and institutionally, the internal obstacles and resistances to the kind of freeing up that the OECD economies so urgently need are deeply embedded. By comparison with all realistic alternatives, the combined potency and feasibility of using competition of imports from the developing countries to agitate and stimulate supply-side adjustments in the OECD countries is formidable.

The same applies on the inflation front. The internal policy instruments – those of so-called incomes policy – available for checking and dampening cost-price escalation, are notoriously weak. By comparison, the price-restraining effects of imported manufactures from the developing countries can be pivotal. From the viewpoint of economic ministers, the effect of such competition is not merely a better deal for consumers, including, especially, low-income consumers (although, as is indicated in a 1978 survey of United States retail organisations to which the latest *World Development Report* draws attention, such benefits are substantial; goods from Asia and Latin America sold, on average, for more than 16 per cent less than domestic products of similar quality). The policy dynamics are that, by holding down the consumer price index, such imports improve the trade-off between unemployment and inflation, as they also do by relaxing specific supply bottlenecks and stimulating greater mobility of domestic factors of production. To those trying to contrive more elbow-room for non-inflationary growth promotion, such additional degrees of freedom should be worth fighting for.

In short, by this reasoning the hidden agenda of OECD policymakers in the early 1980s would be by every honourable and politically viable means to open their systems to the astringent challenge of developing-country competition. If they should be so motivated, they would also need, as noted below, to design measures that cushion and mitigate the social costs of structural adjustment – for humane as well as political reasons. Yet the principal balm to the particularised and localised pains of adjustment would be provided by the accelerated growth that the expanded trade would permit. Instead of backing reluctantly into post-MTNs trade negotiations on grounds of high principle, the impulse of the OECD negotiators would be to converge enthusiastically with those of the "77" who had also come more clearly to appreciate the usefulness of the international market.

f) Needed Trade Policies

The present Report has now made its point about the centrality of trade in a mutual interests agenda, and this is not the place for trying to spell out next needed trade-policy steps in any detail. The latter is something trade specialists on both the developed- and developing-country sides could readily and more competently do if their political principals were to give them the kind of guidance that has been advocated. However, some general comments may be in order.

First, and most obviously, according to the present thesis this is not a time for resting on trade-policy oars. The Tokyo Round ended a chapter but not the book. It has created opportunities for moving ahead – mechanisms, especially as to some types of non-tariff barriers, within which pro-liberalisation case law can now begin to be built, as well as better definitions of those categories of restrictions and market distortions that have yet to be effectively tackled. These leads should be quickly and efficiently pursued.

Second, if, as advocated here, both North and South can enter the next rounds of detailed and continuing trade negotiations with a strong pro-liberalisation bias (to be sure, not mindlessly, having full regard to their respective constraints) then it will make little sense to haggle long over so-called "institutional" questions. These include the comparative roles of GATT and UNCTAD in further trade liberalisation exercises, and, within either or within the two jointly, how to invent fail-safe mechanisms that will force recalcitrant governments to proceed with liberalisations they deeply and basically resist.

Within their fields of coverage the new GATT mechanisms offer rule-making facilities and case-by-case means for ventilating backsliding that can be quite effective with those disposed on balance to play the liberalisation game (for such a regime, for example, being pilloried for backsliding can be useful with some of its own constituencies). The same machinery, to be sure, would be capable of subversion by those basically hostile to liberalisation – but then so, probably, would any machinery in our still nearly anarchistic international polity. The key will be for those who are positive in their inclinations to prevail in their use of the machinery now available. As to GATT and the developing countries, while the latter's delay in signing the MTNs may have been tactically understandable, almost surely their self-interested course will be fullest possible participation in GATT henceforward.

Third, OECD governments that perceive the depth of their potential gain from more open, more equitably and more representatively managed, international markets will be disposed to explore positively, not back away from, the extension of liberalisation rules and even-handed international surveillance to sectors and aspects of the market that have yet to be touched adequately by the world's trade liberalisation regime. The empty area that most urgently needs entering is that of existing quantitative restrictions on such commodities as textiles. But attention should be turned also to such subjects as state trading, intra-firm trading within transnational companies, and trade in services. Again, the choice of institutional fora will be less important than the serious resolve of each side to promote comparative advantage.

Fourth, a practical point made by the latest *World Development Report* is particularly cogent: the existing quantitative restrictions, especially in the area of textiles and textile products, are so embedded that, no doubt, they will have to be worked on in stages. The practical effect of the present tightened restraints is not so much to wound the industrially more advanced developing countries, which are still the main Third World suppliers of OECD clothing and textile imports; it is to discourage the industrialisation and export-development impulses of those less advanced countries for which textiles almost always are one of the easiest and most labour-intensive sectors in which to start. Thus a phased withdrawal of textile quantitative restrictions should give precedence to imports from this latter group.

Fifth, the "bottom line" for trade liberalisation negotiations should be, mainly and abidingly, the achievement of effective time-bound reductions in protection. If the present view appears indifferent to the human problems posed by structural adjustment, then it is not being correctly conveyed. Obviously, these are serious, as well as politically difficult, problems; they will indeed argue often for phased, modulated withdrawals of protection. The point is one of priorities. Correctly perceived, the dominant interest of those industrialised economies which now have fences around protected activities as well as of those being blocked by the fences, is in the latter's removal – in most cases. Given that agenda, there are needs, secondarily, to manage the withdrawals in a phased, non-traumatic fashion and for the proprietors of the fences to subsidise and/or otherwise lessen the attendant social costs. But such attenuation should be limited and the cushioning of a kind that facilitates, not that obstructs, the needed adjustments.

This point has a corollary. Probably there is little merit in international trade negotiators getting bogged down in debate over the most appropriate forms of adjustment assistance for industrialised countries to employ. The latter can very usefully exchange information and views on this subject among themselves – as they are now doing within OECD. But what is appropriate will vary from country to country, if not case to case.

Moreover, to pull the subject of structural adjustment policy into North-South trade negotiations falsely exaggerates the contribution of developing-country imports to the problem. The latter in fact are a minor creator of adjustment needs compared with technological change, intra-OECD trade, and other factors. For trade negotiators to dwell on this topic, therefore, could be misleading as well as diversionary. They will indeed do well to focus on the "bottom line" – seeking, subject by subject and commodity by commodity, in the more difficult cases of non-tariff barriers as well as for tariffs, to define calendars for de-protection that can be implemented and monitored.

Sixth, a strengthened and broadened programme of North-South trade liberalisation that is seriously undertaken from both sides and stretches its span of concern to trade in services and productive factors as well as commodities will give redoubled attention to ways and means of injecting more information and more transparency into international markets. The implicit object, in the case of technology, need not be to turn the proprietary knowledge of international companies (this often being their most valuable asset) into a free good. But the imperfections of the markets and their tilt against developing-country participants can be greatly reduced simply by increasing the latter's effective access to information already theoretically in the public domain.

Finally, nothing in a convergence agenda built around the further opening of North-South trade need be taken to imply uninterest in, let alone hostility to, other openings of markets that the developing countries can find within themselves, individually or collectively. On the contrary, even if every economics minister in the OECD countries became a rabid champion of the kind of de-protection that has just been argued, there would be practical, time-phased limits to their absorptive capacity for developing-country exports. Especially, therefore, in the case of developing countries' manufactured products – which almost by definition must be the strongest growth sectors (relatively speaking) in nearly all countries, if they are to achieve adequate growth – there is every argument for broadening internal markets, in many cases by redistributive measures that are needed in their own right. There is a clear case also for pressing ahead with the trade side of "economic co-operation among the developing countries" – as in fact a number of them have been doing recently with good success.

In the Tokyo Round, the international community already has recognised the appropriateness of the extension of trade preferences between developing countries. At the same time, since the developing countries' greater potential for trade expansion for many years yet will continue to lie in improved access to OECD markets, it will be important that ECDC be kept broadly consistent with North-South openness. This, in fact, should not be a serious constraint, for the experience to date is that increasing exports to OECD markets and to other Third World markets not only are quantitatively complementary, there is a systematic link: competence in the one market leads generally to success in the other. Although the case may not be as clear, the same probably is also true more often than not as to the consistency of internal and external market expansion. It is true that general economic policies that force production and marketing inward and raise *de facto* barriers to exports are likely to breed inefficiencies that make the exports uncompetitive. But if the incentives to export are healthy, firms that gain scale and experience in supplying wider domestic markets are likely to do better abroad also.

In short, the trade strategy advocated here need not be a single-track one. It invites supplementation.

g) The Facilitative Function of Finance

This chapter does not attempt any detailed indication of which special features and content might be given to a reformed and enlarged flow of mostly non-concessional, public and private transfers to the middle-income countries. Later parts of the Report contain material that bears on the subject. But while the studies of this matter that have been mentioned, including the one by the OECD Secretariat itself, are still under way, it would be premature to propose a blueprint. What should be considered, however, is the role of such transfers, whatever their particulars, in the kind of mutual-interests strategy we have been discussing.

At the start of this chapter care was taken to emphasize the "repair and maintenance" needs for transfers reform that must, in any event, be attended to. Beyond this, the question has been whether a substantial enlargement of non-concessional flows is a feasible and appropriate way to further the respective interests of the developed countries and of those developing countries that could claim and service substantial increments of non-concessional or only slightly concessional credits. (It should be noted that the packages of proposed reforms that our awaited studies can be expected to produce will not divide neatly into two parts, one concerning the repair and/or replacement of existing flows, the other their enlargement. But for purposes of defining a strategy, the distinction is useful.)

With respect to the strategic merit of an expanded flow of transfers, propositions that leap directly to the transfers conclusion and assume that its merit is self-evident on demand-recycling grounds obscure the most genuine interlock of self-interests between North and South. This, it has been argued, is the mutual gain to be had from further opening the international market. This is the issue on which the present strategy contemplates a convergence of fresh energy from the two sides. But suppose that most of the policymakers in question – the OECD economics ministers and a decisive plurality of their counterparts in the South – now were to become deeply persuaded along these lines: what as a practical matter could they do?

The first answer is that they could, in fact, even within their existing political constraints, do a good bit. If trade negotiations could be converted from mainly an adversary to mainly a co-operative proceeding, this in itself could lead to many accomplishments.

But second, the newly galvanised purpose to open markets could also be facilitated importantly, probably critically, by supplemental finance. The developing countries would need additional external funding further to gear up their productive capacities. On the OECD side, governments convinced that further liberalisation was essential therapy for the medium- and longer-term health of their economies but seeking to relieve the cure of some of its bitter initial taste, could be greatly helped by a quick pick-up in exports to developing countries. The latter would help keep an increased openness to developing-country exports from having current-account balance-of-payments effects that might alarm the industrialised countries' financial communities. It would improve the positive political resonance of the new programme by providing direct benefits to a variety of OECD export industries (and to their respective labour and management constituencies). If, as now seems likely, greater pragmatism all around permitted expanded overseas direct investment to become a significant part of the additive transfers package, then these forces also could be built into trade liberalisation's supporting constituency.

In short, according to this calculus of the role of "massive transfers" in a mutual-interests strategy, they would enter in large part as a means for widening the political opportunities for reaping the gains from trade.

To keep the scenario honest and "un-puffed", two caveats must be entered. First, the political reinforcement of liberalisation just posited would not happen automatically

– at least, certainly not in full measure. It would require, on the part of liberalisation-bent governments, more active and effective efforts to mobilise their supporting exporter and private-investor constituencies – as countervailants to protectionist pressures – than governments typically have succeeded in making in the past. But, contrary to the problem of consumer mobilisation, there is no obvious reason of political dynamics why this should not be feasible.

Second, at various points in the preceding pages, concern has been expressed about the recently emerging imbalance between transfers and developing-country exports. It has been suggested that the extent to which the former have been, thanks to OECD stagflation and protectionism, outpacing developing-country exports to the North, cannot be extrapolated indefinitely. The transfers part of the present scenario, it must be noted, would not solve, it might temporarily aggravate, this problem. But it is precisely in this sense that a near-term expansion of transfers would be catalytic. In order to get developing-country exports to the OECD countries moving again as they should, and back into better balance with the net flow of transfers from North to South, yet a further dose of transfers is needed to get the balance-recovering process under way.

A further complication deserves brief reference, especially in view of its relation to the second policy prong of renewed development effort that is discussed in the next chapter. If and as enthusiasm builds for the kind of mutual-interest strategy just outlined, any number of ideas will emerge for carrying the financial facilitation one step further, namely, for making it a little more concessional. Intrinsically, so far as the needs of middle-income countries are concerned, there is a great appeal in schemes that would use interest subsidies or other means to shave the average cost of borrowing and extend the reach of mainly non-concessional finance to countries further down the income-per-capita and credit-worthiness lists. The problem, of course, is opportunity cost – the extent of the claim that, when aggregated, such measures would make on the world's scarce stock of ODA, which should, inescapably, be reserved mainly for the poorest countries.

How binding the latter constraint must be judged to be will depend heavily on just how movable, under development renewal circumstances, the overall ceiling on ODA can become. There is a possible dimension for manœuvre that will be touched on in the next chapter, although there the thought will be to use it as a device for freeing up resources for the poorest countries: most DAC donors in recent years, with great approval from the international community generally, have fallen into the habit of extending extremely soft concessional terms to all ODA recipients, whatever their development stage and degree of poverty. If present ODA loans to better-off recipients were made less soft, that part of the grant-element "savings" not re-routed as grants or highly concessional loans to the poorest countries could be used to multiply the number of (less-soft) ODA loans that would be available for supplementing the non-concessional flows to the middle-income countries.

With due regard to the complications just noted, it can be concluded that the first of the two policy breakthroughs this Report advocates boils down to a simple proposition. It is that both North and South should take more careful stock of their respective stakes in trade liberalisation and then be prepared, as they reinforce the reliability and improve the balance of the existing net flow of non-aid transfers to the generality of developing countries, also to boost that flow substantially as a way of triggering the crucial gains they both can realise from a further opening of markets.

This breakthrough requires some statesmanship and political courage – on the part of the "77" in overstepping anti-market ideology, on the part of the OECD countries in coping with protectionist pressures. But most of all it simply requires clarity of vision. It is available for immediate implementation.

III

THE GREATEST CHALLENGE: THE LOW-INCOME COUNTRIES AND REGIONS

The second of the new policy thrusts that a renewal of the development priority demands – more aid for the poorest countries – is the more difficult budgetarily. But it is essential.

In the case of the poorest countries the external need is, indeed, mainly for ODA. Prospects for near-term improvements are limited. However, the need is not a short-run one; it stretches at least to the end of the century. And in absolute size the requirements for doing something consequential are not mind-boggling – especially if the external assistance is focused on recipient countries prepared to lead the way with serious and effective efforts of their own; if donors can reallocate some of their aid flows to countries with greater development needs; and if the former, without excessively diminishing the usefulness of their transfers or injecting too much dissonance into the system, can be free to fund and package their aid in ways that fit the particularities of their politics.

a) The Salience of the Problem – Despite Diversionary Disguises

Any number of recent public documents and statements have outlined the plight of the impoverished countries. As noted, the group includes some 40 countries numbering over one billion people. (The question of where, as between countries, the "low-income" line should be drawn is addressed in the next section.) There is no need to rehearse the statistics delineating the lowness of their average incomes, their malnutrition, underemployment, infant mortality, short life-expectancy, illiteracy, and the rest. What must be emphasized, however, is that the relative backsliding of these poorest countries, already evident during the 1970s, is, under the best forecasts of probabilities under existing policies (for example, the *Interfutures* study, the new *World Development Report*) projected to continue to the end of the century.[1]

The prospect of a drastic, prolonged further sharpening of global dualism, in which a majority of the world's people, including those of the middle-income countries, all progress substantially, while a massive minority at the bottom gets left farther and farther behind, has a nightmarish quality. Its more obvious implications are too distasteful to be contemplated comfortably, so we have thrown up a whole series of conceptual defences. Some of these diversionary theories, which will be encountered in this and succeeding sections, contain a measure of truth. But on balance they do not wash – singly or collectively. They do not succeed in turning aside the proposition that a first order of global business from now to the end of the century must be to improve the condition and prospects of the poorest countries.

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1. *Facing the Future: Mastering the Probable and Managing the Unpredictable,* OECD, Paris, 1979; *World Development Report, 1979,* World Bank, Washington D.C.

Defensive theory No. 1 is that the statistics delineating the plight of the poor countries, especially the income-per-capita figures, are misleading; things are not as bad as they imply. This is true. Transnational comparisons of incomes, where values are converted at official exchange rates, tend to understate the purchasing power of incomes in the poorer countries. But on the basis of proper purchasing power comparisons the picture of disparities changes only in degree. Of the countries whose accounts have been recalculated in this fashion by the Kravis group, which is meticulously pursuing the matter for the United Nations, the correction that emerges for India is much the largest of any: that country's per capita income needs to be upvalued by a factor of more than three.[2] But even such a revision would leave Indian income below, for example, the World Bank's low-income ceiling for IDA lending. More generally, such recalculations do not significantly change the identity of countries in the bottom third of the income list, and the pronounced lag in the rates of poorer-country gains remains. In short, better statistics will narrow the apparent disparities problem from the almost implausibly extreme picture now given by the official figures, but the problem will remain grievous.

Theory No. 2 is that, because the task of converging inter-country incomes turns out to be so difficult and prolonged and may in the end be impossible without pulling down countries at the top (for example, the planet probably *would* hit severe physical resource constraints before everyone got pushed up to the present levels of Switzerland and Kuwait), the whole thought of such comparisons should be abandoned and suppressed. In the poorer countries, it is reasoned, human betterment will have to follow very different paths. They should not be encouraged to copy Western or East European styles of modernisation. Instead, they should evolve their own indigenous modes of social betterment that do not have heavy resource requirements.

As practical counsel for the poorest countries, this is mainly humbug. They are indeed, and wisely, turning away from slavish, uncritical mimicry of the industrialised countries. But there is no way their designs for humane progress, however indigenous, can be pursued without relatively massive advances in average individual material welfare. The peasants of Mali and Bihar have no desire to subsist on diets of greater psychic serenity.

Defensive theory No. 3 is for donors to worry about poor people abroad *to the exclusion* of worrying about poor countries. The ultimate concern of the anti-poverty aspect of development policy is, of course, to improve the condition of poor people. But this is translated by some into the proposition that therefore aid allocators have the same moral obligations to the poor wherever they are located – as much obligation per capita, as it were, to the smaller pockets of extreme poverty in middle-income developing countries as to the masses of extremely poor in low-income countries. Some Northern policymakers would go further: they deny that the plight of poor countries *qua* countries presents any moral problem to the international community, because morally one need have compassion only for individual human beings, not the nation states into which they are organised. Leaving aside the philosophy, in practical terms these contentions tend to enervate optimal allocation of aid in a world of scarce ODA and second-best choices. On the one hand, it is reasonable to leave more anti-poverty responsibility to regimes with greater capacity to shoulder it; on the other hand, in the case of the very poor countries, it is reasonable in a nation-state world to accept nation states as (imperfect) surrogates for the people composing them.

A collateral theory – call it No. 3 a – is that if the upper tail in the income distribution of a poor country is higher than the lower tail of the distribution in a rich country (for example, some people in Nairobi are better off than some people in Newark) this vitiates the case for transfers between the countries. Pragmatically, this

2. *World Development Report, 1978,* Technical Notes pp. 113-115, World Bank, Washington D.C.

points to a serious problem. It suggests the need for internal redistributive reforms in both countries; and – along with reasons of intrinsic comparative concern – it is a justifiable reason for a donor's effort to steer its assistance to a poor country's poor. But as a rationale for opposing inter-country transfers, it is either sophistry, or remarkably parochial.

The OECD governments may be tempted, but they are not seriously persuaded, by a fourth defensive option. This would be to say that – yes, we do indeed harbour much concern for the lagging prospects of the poorer countries but we conclude, on burden-sharing grounds, that the lead in the next round of efforts should be taken mainly by the wealthier OPEC countries, who are in a relatively easier resource position, and/or by the centrally-planned economies, who thus far have done so little. Greater contributions to poor-country requirements by these other blocs are surely to be encouraged. But to condition further DAC effort on such other inputs not only would ignore the overwhelming predominance, still, of the income and product capacity of the industrialised market economies; it would downgrade, not upgrade, the development priority Members at present assert.

b) **The Target Group: LLDCs and Who Else?**

A number of DAC donors, however, are tending to adopt a fifth defensive stratagem vis-à-vis the gaping needs of the poorest countries. This is to assume that the latter can be adequately addressed by concentrating on the so-called "least-developed countries". The "least-developed" category was formalized in the processes of multilateral negotiation some years ago. In terms of numbers of countries it is quite large. Thirty-one countries have been "elected" to the category on the basis of their low per capita incomes, low degree of industrialisation, and low literacy; and (despite some experience suggesting that it is difficult to elect countries out of the set once they are in) there is no real question about the urgency of their needs. There is an arguable case that they are the most needful of all.

Yet the LLDCs are mostly quite small countries; the addition of Bangladesh in 1975 increased the population of the whole category by nearly 50 per cent. Collectively they account for only 19 or 20 per cent of the population of the "low income countries" as defined in this Report or the current *World Development Report* and for 17 per cent of the population of countries eligible for IDA loans.[3] Moreover, it is the larger low-income group, not just the LLDCs, whose performance has been lagging behind the generality of the developing countries.

When donors deploying scarce ODA concentrate heavily on the LLDCs, they therefore tend (as statistics in Part 2 indicate they have been doing) to neglect the demographically larger part of the global poverty problem represented by such countries as India, Pakistan, Sri Lanka, Kenya, Burma, and Indonesia (which, despite its modest holdings of oil per capita, is still very poor). If the LLDCs are the hardest core of the poverty problem, the implication is not that the response to it has been excessive – or that DAC countries should hang back from implementing the undertaking they have now made at UNCTAD V to increase their aid to LLDCs. But the response to the second, large circle of surrounding need has been particularly weak, and therefore especially invites attention.

When this point is made, the collateral impulse (No. 5a on the present list) is sometimes to raise an array of technical and/or tactical warnings about difficulties to which any moves to enlarge the category of priority countries could lead: once the door is open, the North-South dialogue could get bogged down in negotiating a whole spate of special categories – island, land-locked, food-deficit countries – that already are being suggested, in part by the "77". Or, alternatively, adoption of a single, enlarged

3. See Annex II.

category of " low-income" countries for priority attention would be too unidimensional. It would be defined simply in terms of income per capita, whereas the existing income – and, in many cases, population – data are highly fallible. Their combination constitutes an unsatisfactory proxy for a whole complex of characteristics that should determine comparative need. Moreover, to establish the dividing line between " low-income" countries and those which are barely excluded from this enlarged circle would be a contentious, politicised exercise. Finally (the indictment concludes) an enlargement of the category of countries for which donors would propose preferential ODA allocations would be interpreted as " differentiation" inimical to the political solidarity of the " 77".

These are not trivial objections. Yet the strategic need for development policy to mount a thrust of priority support to a considerably larger set of neediest populations than those of the LLDCs alone seems so clear that the international community should concentrate its mind on solving the foregoing puzzles. In fact, solutions should not be too difficult. For example:

i) A proliferation of special categories is indeed an unattractive option although, as discussed in section *f)*, in a world of second-best policy choices, some of this may be needed.

ii) Various studies have shown income per capita data to be good rough surrogates for other dimensions of development need in far more cases than not. Furthermore, no-one is proposing either that income eligibility be the only criterion donors would employ in their aid allocations or that they entirely cease giving aid to other than low-income countries; all that is at issue is an allocative priority.

iii) The line-drawing problem is exaggerated. As it is now, IDA has its cut-off, UNDP employs a distributional formula with a steep poverty gradient, and various bilateral donors weigh income per capita heavily in their choice of " priority" or " programme" countries outside the LLDC circle – all without great political or technical difficulties. Moreover, there would not need to be a single hallowed income per capita line bounding the low-income group for all programmes. As long as the guidelines adopted by different agencies fell within the range at present bounded, say, by the World Bank's *World Development Report* definition of "low-income" ($300 in 1977) at the bottom, and the same World Bank's IDA cut-off ($580 in 1977) at the top, there would be no harm in some definitional diversity. This might make for messy statistics, but otherwise the retention of some tighter, some looser, bounding definitions would ease the transition from high to low priority ODA treatment for those countries (fortunately not too numerous) at present in the $300-500 range.

iv) The so-called " differentiation" problem almost surely is exaggerated as well. As indicated, most donors already discriminate in favour of poorer recipients – and are urged to do so by the " 77", not only with respect to the LLDCs but also in regard to the " most-seriously-affected" countries, a dated concept whose continued use simply constitutes a makeshift for the larger group of low-income countries under discussion here. The basic equity of a development strategy's giving ODA priority to this larger low-income group should be acceptable to the generality of the developing countries if the policy carries no tactical overtones of trying to manipulate the internal politics of the " 77".

In short, the only genuinely serious problem in widening one's span of address to the whole range of very poor and lagging countries is likely to be that of finding the resources with which to do so.

One other aspect of the target group at which a reinforced strategy for poor-country development would be directed deserves mention: global poverty has a geographic shape. The low-income countries, overwhelmingly, are gathered into two territorial groups – one in Africa south of the Sahara, the other in South Asia, spilling over into South-East Asia. There are various ways in which new approaches to the poor-country problem can, without encroaching improperly or unrealistically on the uniqueness or the sovereignty of contiguous countries, usefully respond to this regional dimension.

c) **Poor-Country Potentials**

The conclusion to which this discussion is building is that it is time for aid donors to stop rehearsing the reasons why provision of substantially more assistance to the (larger) set of the poorest countries is unfeasible, and to start figuring out (incrementally, but with some dispatch) how to do it.

The collective DAC ODA performance, by its own collective standards, is depressing. Most members of the Committee endorse the 0.7 per cent of GNP target. In practice, DAC donors, bilaterally and multilaterally, are providing just half this amount: 0.35 per cent. Further, DAC members in principle agree that ODA, being a scarce resource, should be concentrated on the poorest countries. In fact, mainly because of various political pulls on Members' allocations, only half their bilateral ODA goes to the poorest countries. Hence the actuality of concessional transfers to the poor countries equals little more than one-quarter of what the donors' own collective theory says it should be.

The gap between theory and performance has grown so large that it may be enervating corrective effort. Surely, the conventional wisdom is right that no fourfold increase in the share of DAC GNPs flowing as aid to the poorest countries is likely in the foreseeable future. But instead of confronting the gap and deciding, piece by piece, how it can be diminished, we have been contriving, as the previous pages suggest, various strategems to deny the existence of the problem.

Four of these diversionary propositions have yet to be considered: first, that the outlook for the poorest countries, sad as this may be, is so bleak and unpromising as to warrant little external investment; second, that the poor countries' prospects depend so overwhelmingly on internal effort that the question of more versus less aid makes comparatively little difference; third, that the capacity of the poorest countries to absorb more aid is narrowly limited; and fourth, that, in any event, the 0.7 per cent ODA target is a wholly arbitrary norm.

The contention as to the hopelessness of the poorest countries' prospects is quite unjustified. In some countries and areas, to be sure – Southern Africa is an example – internal and/or regional political turbulence postpones or diminishes progress on economic and social development. But poor-country regimes overall probably have a clearer view of their own development needs and priorities, a keener interest in internal social justice, and a more pragmatic and seasoned, albeit independent, style in dealing with external actors than ever before.

In most of the poor countries in Asia, where the local population/resources balance is more unmistakably critical than in Africa, a demographic transition has begun, although it will long require strong, continued, positive pushing. As indicated in earlier reference to the convergence of developed and developing-country interests in sectoral production expansion, most of the poorest countries have considerable potential for expanding their outputs of non-renewable and/or renewable energy, and a number, substantial raw materials potential awaiting further investment. Most, even of the smallest and poorest, already are some distance into their development of the industrial production abilities and the internal marketing systems that virtually all will require for healthy growth.

In both South Asia and Africa, however, the key to development prospects during the balance of the century lies in agriculture. The reason that careful projections by the

World Bank and others of likeliest developments to the end of the century anticipate that vast amounts of "absolute poverty" will still remain at that time in the world's two great poverty regions, each predominantly rural, is precisely the limited growth expected in agricultural production. This is altogether responsible forecasting. As the FAO and others have been teaching us for years, to push up *national* agricultural growth rates – in a sustained way and across a whole range of crops – is an exceedingly difficult, costly, usually slow business.

But, on the other hand, major and continuing breakthroughs are not impossible. They have happened before in particular crops such as wheat, and the most recent developments in India (to a considerable degree also in Bangladesh) are cause for great hope. Irrigation has been expanding one million hectares a year, fertilizer consumption has been growing 20 per cent annually, agricultural extension has acquired new vitality over wide areas, and rising yields have been spreading from wheat to rice and other crops. This suggests what can be done when the infrastructure for agricultural modernisation (including an indigenous agricultural research and research-propagating system) begins to get in place and a regime bent on agricultural promotion has comparatively abundant resources – as India temporarily has had – to deploy for this purpose.

African agriculture is a different and perhaps more complex, particularistic, and difficult case. It does not, for example, appear to have as much potential for gains from improved water management as that still remaining in South Asia. On the other hand, the need for (and the gains to be had from) building infrastructure, including basic farm-to-market linkages as well as the research and extension system, is greater, and so is the scope for improving on recent performance.

Both regions have underlying physical resources for agriculture that are still being grossly underexploited. A prime target for their governments and for the international community generally should be to add a percentage point to the agricultural growth rates the forecasters are now projecting for the rest of the century – to move them from 3-3½ per cent per annum to 4-4½ per cent. This, to repeat, is an extremely ambitious goal. But it is not beyond reach. And nothing could have a more profound effect toward narrowing the imbalance between the poorest countries and the rest of the world.

d) The Scope for ODA to Make a Difference – and the "Absorptive Capacity" Issue

Agriculture provides a useful focus, also, for answering the question about the relevance or not of aid to the massive, mainly internal, problems of the poor countries. Of course, it is true, as in virtually all development situations, that the main effort must come from the recipient countries. This is why discretionary aid, which flows, not as a matter of right and routine (as it would under a transnational system of progressive taxation) but as the result of voluntary decisions by donors, tends to favour recipients perceived to be making strong self-help efforts that can lever the effects of the external inputs.

But the marginal role that external resources can play in these countries is critical. Being poor, their capacities to save are limited. Savings gaps, in an important sense, tend to be less conspicuous than balance-of-payments gaps. The latter, which arise most typically in dynamic-growth cases where the import orders occasioned by growth are outrunning foreign exchange, cry out for donors' attention. By comparison, savings gaps are inert; they represent needed investment that is not happening. There is a great deal of the latter at present in the South Asian and African agricultural sectors. Great quantities of investment are needed in water management, inputs supply, and roads and other kinds of framing infrastructure; also (especially in Africa) in human capital formation – training, education, health, and the strengthening of agriculture-support institutions, as well as investment in the development and networking of rural centres and settlements above the village level.

There is, of course, a variety of constraints on all these programmes. But the resources constraint tends to be pervasive. The recent situation in South Asia, which has contributed to the gains in Indian agriculture, must be construed as a benign but temporary (and, in any event, only partial) exception to the rule. The combination of three good monsoons with the windfall of an unexpected surge in remittances produced by the flow of workers to the Middle East led to a most unfamiliar swelling of foreign exchange reserves. But with a more average run of weather, with public investment in agriculture maintained at its increased level, with the rise in remittances almost sure to flatten out, and with the new hikes in the cost of oil imports, the resource constraints on further investments will again tighten. Once more in South Asia, as in Africa, the role that sensibly programmed and administered aid can play in augmenting internal investment will become crucial.

One aspect of the aid-needs interface in the two great poverty regions deserves particular emphasis. Many of the priority investments will yield comparatively quick and direct returns. But a number of the most important – for example, in education, in larger irrigation and drainage systems, in village woodlots, in other forms of decentralised energy development, in primary health systems – will not. This is particularly the case with the massive efforts needed in such fields as soil conservation, reforestation, and upstream water management to arrest desertification and stop the irreversible degradation of fragile mountain environments – matters of *per se* interest to future generations globally.

The poorest countries, in short, need a great deal of investment in long-gestation infrastructure that those well-launched on the growth process tend either already to have in place or to be better able to afford themselves. Moreover, almost all such long-gestation activity can be highly labour-intensive, thereby becoming an important means of attacking underemployment and converting part-time labour redundancy into valuable and pivotal assets.

Aid donors in recent years have had two policies that have biased them against such long-gestation infrastructural investment. First, some, in seeking to concentrate on directly productive projects in agriculture and other target sectors, have simply ruled infrastructure schemes out of bounds. Second, the discount rates that, in accordance with approved benefit-cost practice, they have employed to optimise their allocations across alternative possible projects, have systematically discriminated against long-gestation (i.e., low-rates-of-return) projects.[4] Reform on these counts plainly is in order – with a safeguarding corollary, namely, that while it is indeed appropriate to invest in selected high-priority activities that are highly "capital-intensive", in the sense that they will have a high incremental capital-output ratio for an extended period, the capital formation itself should be labour-intensive.

The issue of absorptive capacity is distinguishable but related. Here the contention is that, however much they may "need" additional resources in some generalised economic sense, the poorest countries do not have operative capacity (administrative and otherwise) at the ready to use much more aid than they are now getting – witness the build-up of aid pipelines.

This contention engages some real problems, but its defensiveness is particularly conspicuous.

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4. The point is not – or need not be – that benefit-cost methodology is basically erroneous; rather, its applications are flawed in these cases. The full benefits of the projects in question typically are underestimated because they *a)* are hard to measure and/or *b)* are indirect and diffused, accruing to widening, hard-to-trace circles of other activities and industries, and/or *c)* are so distant in time that, although they may eventually be of such large and ramifying scale as to have quite decent present values (if the future were fully known), their outlines are too fuzzy and remote to be given much credence by project-evaluation technicians.

First, absorptive capacity is a relative matter – relative to time and relative to the scale of expansion contemplated. To ask what would happen if all DAC donors snapped to a 0.7 per cent level of performance tomorrow is irrelevant. Collectively, on the most favourable assumptions, there is little or no chance of their doing that much in the foreseeable future. As to the poorest countries, an extremely ambitious target might involve a doubling of their current share-of-GNP flow; and that, again most ambitiously, would be over the space of several years. There is every prospect that, if absorptive capacity is subject to improvement, it can stay a step or two ahead of volume.

Second, the absorptive capacity problem can be, and is being, worked on. A careful and extended study of disbursement and other aid implementation problems made under DAC auspices during the past year and reflected elsewhere in this Report has identified a number of respects in which better co-ordination between donors and recipients can speed the intake of assistance as well as improve its effectiveness.[5] As for bottlenecks on the host-country side, their existence in essence is simply a manifestation of a country's need for development, and attentive donors, by well-targeted technical co-operation and selected inputs to relax physical bottlenecks, can do a great deal to increase absorptive capacity.

Third, much of the problem is donor-created, partly via dysfunctionally cumbersome accumulations of regulations, standards, conditions, clearances, and other procedures, partly by failures to provide a mix of forms of assistance (project, non-project, commodity, local-cost funding, etc.) that matches the recipients' needs, partly by project designs that, instead of relying on and reinforcing indigenous administrative systems, disrupt the latter. Some of these issues are addressed in Chapter IV.

The short of it is that absorptive capacity is a dimension of the development process that will require continuing and concerted attention as aid to the poor countries is increased, but there is no need to regard it as a static block to needed expansion.

e) The 0.7 per cent Target: An Arbitrary Benchmark that has Acquired Relevance

A good reply to discomfited donors who ask, " what is so great about 0.7 per cent? might be, " what is so great about the metre? ".

The metre is important, not because of some forgettable relationship to the circumference of the globe, but because it is a metre: it is an accepted unit of measurement. Much the same is the case with the 0.7 per cent target. In origin, it was essentially arbitrary. Moreover, attempts to build up precisely and elaborately calculated justifications of the target in terms of the external resource gaps that need filling for the achievement of postulated developing-country growth rates are unpersuasive.

Rather, what by now have made the 0.7 per cent target a relevant and important artifact of development policy are, first, its usage (it has been accepted as a desideratum by most DAC Members and all developing countries), second, the fact that it points the *direction* in which, by common consent, the ODA/GNP ratio needs to move and, third, its statement about the needed extent of the needed movement – large. About the last, as to the poorest countries, there can be no question. Compared with the dangers of undershoot, the dangers of overshoot are minimal.

f) A Strategy for Attack

The ground finally has been cleared for confronting the central issue that has been staring at us all along. The inescapable residual question is how, starting in 1980, can DAC donors begin very substantially to raise their concessional transfers to the poorest countries?

5. See Part 2, Chapter VII.

Precise calculations of the increment needed would be specious. Among other things, this will depend on how many and which of the poorest countries are ready (and how quickly) to claim major increases via the cogency and focus of their own efforts. The exact quantum of increased requirements will depend also on a variety of other interactions – with trade developments, with non-concessional flows in some cases, with the extent to which aid flows can usefully lever additional indigenous resource-raising, and with questions of managerial efficiency (of donors and within recipient economies).

However, in order-of-magnitude terms, a doubling of the GNP share going to the low-income countries (LICs) by the middle 1980s probably would be a reasonable goal. In terms of needs, and of abilities to use additional resources effectively (*if* the prospective availability of such resources can be given some reliability), this certainly would not be too much.

The United Nations Committee for Development Planning has proposed as a kind of cornerstone of global development strategy for the balance of the century the proposition that incomes per capita in the LICs should double by the year 2000. The per capita growth rate required (3 ½ per cent) would mean a total growth rate for these countries on the order of six per cent – about 1 ½ percentage points more than the present forecasts, and much closer to what is anticipated for the generality of developing countries. Such a performance, no doubt (since it would depend pivotally on their own effort) would not be achieved by all the poorest countries. But a concerting of purpose to the effect that, insofar as the international community can usefully assist such an outcome, the back-sliding of the low-income countries should be stopped would seem a sound and reasonable goal for global policy.

Very roughly, such a step up in LIC performance (if it is extended to the whole group) might call for a step up in annual investment that would average $ 20-30 billion in real terms over the 20-year period. The needed numbers, of course, would tend to be smaller at the near end; they would taper upward as the whole scale of activity expanded. On the other hand, if, as suggested, there were an early emphasis on long-gestation (and employment-intensive) infrastructural investment, this could make for higher ratios of added investment to gains in output in the early years. Further, as the acceleration effort continued and began succeeding, one would expect the relative size of the external inputs to be scaled down; all of these poor countries include self-reliance among their principal development goals.

On both of these latter counts, a quick acceleration of the aid input – to the extent this can be economically and administratively efficient and is politically feasible – is needed. Doubling that input in share-of-GNP terms, probably is the minimum that a distinct acceleration of development in those countries could be expected to require. Together with a proportionate increase in OPEC flows, this would raise aid to the LICs on the order of eleven to twelve billion 1978 dollars and would still leave the latter with the formidable challenge, on top of their existing own efforts, of coming up with something approaching a matching amount of additional resource mobilisation themselves.

The first hurdle, in attacking such a need, is to decide that it is thinkable. What is at issue is about $^1/_{600}$ of donors' GNPs, about $^1/_{200}$ of their collective government expenditures. The sum is not ***per se*** unthinkable.

There may be scope for breaking loose some of the needed resources by reallocations from elsewhere in donors' aid programmes. In principle, with half DAC ODA now flowing to other than low-income recipients, this sounds feasible. In practice, in such important cases as France and the United States, it may prove politically very difficult. However, if one is planning for the medium and longer term, decisions gradually to effect such shifts should be possible.

In some country cases, as mentioned earlier, it may be possible to raise nominal

ODA by reallocating the total "grant equivalent" at present being provided to developing countries: loans now being supplied to middle- and upper-income developing countries may be judged redundantly soft; if so, the grant element in such loans could be reduced toward the 25 per cent limit that qualifies a transfer as ODA, with the "saving" being redeployed. If this option does not fit the parliamentary realities under which a government works, i.e. if the operative constraint is on the total ODA appropriation voted, not on the grant equivalent it represents, then the same effect could be had by hardening the mix of the transfers to middle-income countries – substituting official non-concessional flows (often without an equivalent budgetary charge, at least to the same budget head) for part of the ODA, with the latter being diverted to LIC use.

However, it should be remembered that at the end of the preceding chapter the same reallocative manœuvre was suggested as a possible source of extra ODA sweetening for the mainly non-concessional flows to the middle-income countries. A choice will be necessary. The same "savings", which in any event would be limited, cannot be made to do double duty. This only underscores the probability that if there is to be a substantial expansion in aid to the LICs much of it will have to be provided by increased, not just reallocated, ODA.

Some donors will prefer, and find they have the reserve political capacity and determination, to take on the issue frontally, and simply propose relatively large but absolutely small increases in their general aid budgets. In so doing they will use whatever arguments concerning the needs of the poor countries and the reasons for helping them, and whatever comparisons of size with defence spending, internal welfare costs, consumption outlays on alcohol and tobacco, etc., promise to be the most persuasive in their particular circumstances. They will also do whatever their laws, budgets, and customs allow them to do to mobilise public and parliamentary support for their case.

But now we come to a point that is critical if one is trying to calculate, in the very difficult composite circumstances in which we find ourselves, the possibilities for an early and effective response to poor-country needs. The action sketched in the preceding paragraph is what might be called an orthodox "good-donor" response. It is to be devoutly hoped most donors can give it. But in fact, given the radically different internal political environments in which different donors find themselves, all will not be able to follow this model – at least sufficiently. To contrive an adequate collective response, we shall have to do a good deal of patching and piecing.

This thesis might be carried to the point of arguing that those donors who already are up to the 0.7 per cent target but have the political capacity to go further, and are impressed with the urgency of the LIC problem, should not hang back from doing more. But instead the present plea is for greater readiness to accommodate diversity among the modes, styles, and foci of the aid given by different donors than normally would be consistent with preferred doctrines of development assistance.

Some diversity will give no-one pause. Donors, as now, would be expected to differ markedly in the fractions of their ODA that they choose to put through multilateral as against bilateral channels. But there are some more difficult cases. For example, we continue to be assaulted by proposals for new special funds – for food production, for science and technology, for the Common Fund second window, and so on. In many ways special vehicles, funds, and single-sector programmes are bad medicine. They may entail administrative redundancy and be awkward for recipients; they tend to confound the inter-relatedness of development processes and the needed comprehensiveness of sound development programming. And yet in a period when we are scrambling to piece together an adequately expansive response to the LICs, special-fund proposals deserve the benefit of the doubt when *a)* their subject is self-evidently of high priority, *b)* most of their benefits would in fact flow to the low-income countries, and *c)* they promise to extract net additional resources from even a significant minority of donors.

Similarly, some donors are persuaded that they, their parliaments, and their publics would have a greater disposition to invest in programmes targeted quite tightly on such specific dimensions of welfare as nutrition (via better food production and distribution), primary health, and primary education. In the same vein, some are expressing considerable early interest in some of the "newer approaches" to poor-country aid that lately have been suggested – along lines not yet well-defined but that this Report attempts to explore, first in the next section, then more extensively in Part 3. Yet again, in casting about for means to fund expanded assistance to the low-income countries, some donors more than others will be driven toward advocacy of greater reliance on such non-traditional funding sources as seabed royalties, altered patterns of SDR distributions and perhaps even experimental international taxes.

The present brief for greater tolerance of inter-donor diversity reflects no lack of awareness of the complications and costs that could be entailed. Indeed, one of the purposes of Chapter IV is to identify certain difficulties into which some of the tendencies just tolerantly mentioned can lead. More generally, it is clear that if, in stretching hard to mount a quantitatively adequate response to the poor countries over the next several years, we do contrive a kind of do-it-yourself mosaic of diverse modes and styles, some careful collective monitoring, for example, within DAC, will be needed to sustain minimum coherence. We may also need some additional collective guidelines.

Yet DAC itself is a good case in point in this connection. The object should not be orthodoxy or uniformity for its own sake. In deciding whether to object to a new alternative, Members' standard should be, not "is this something I would wish to do?" but rather, "if some donors take this up, would it further the collective effort without notably disadvantaging others' programmes, including my own, or loading more costs than benefits onto recipients?" The model, as we strive for expansion, should be an assortment of (not badly inconsistent) donor options.

The final two sections of the chapter – the one touching on "new approaches", the other asking about the appropriateness of a new, supplemental LIC ODA target – symbolise the tension between diversity and commonality that probably will have to characterise any feasible expansion scenario.

g) "Newer Approaches"

As a portion of Part 3 reviews with some care, there has been a stirring of suggestions, mainly in connection with the formulation of an International Development Strategy for DD III, that something new is needed in our approach to the problems of the two great poverty regions. The impulse, clearly, is to arouse fresh and renewed donor support, but those so speculating have been concerned that any new aid models also be genuinely constructive from the viewpoint of the countries in the regions concerned.

The speculation, whose most extensive public articulation thus far has been in the latest annual report of the United Nations Committee for Development Planning,[6] has tended to centre on the need for more concrete undertakings, whose nature and benefits can be more easily comprehended by donor publics and parliaments. Such might be the case, it has been suggested, with major new projects, or large clusters of smaller projects, or sharply defined and targeted programmes that (whichever the project-programme format) would be tied to one or another priority theme. Such thematic programming, while mindful of the broad sectoral aspects of development, could home in on sub-issues of particular concern to particular regions – in agriculture, for example, on water management in one case, on rural transportation in another, in rural industrialisation, for instance, on the problems and potentials of the self-employed, in

6. *Committee for Development Planning, Report on the Fifteenth Session, E/1979/37*, United Nations, New York, 1979.

health, on the suppression of a particular disease, and so on. And mindful of the geography of poverty, the approach might give particular attention to potentials and problems cutting across groups of contiguous countries.

Clearly, these "new" ideas are not brand-new. They represent a re-emphasis on aspects and options that development policymakers have recognised and, in differing degrees, have been implementing right along. Further, the chances of these ideas crystallizing into any very differentiated and specific set of undertakings in the course of the present IDS negotiations would appear to be small. Of greater importance for our present purposes, as a strategy for generating adequate response to the unrequited needs of the LICs, pursuit of such ideas offers no adequate substitute for the kind of collective head-on attack to which the present discussion has mainly pointed.

Nevertheless, there are two positive things to be said about the "new approaches" approach. First, as suggested above, it may have elements of appeal to some particular donors and particular recipients that, when translated into actionable and useful programmes, can lend fresh impetus to the flow of resources to the poverty regions. An open-minded receptiveness to such possibilities is in the interest of all those who want to see the aggregate of serviceable aid to the poorest countries augmented.

Second, aside from the approach's possible selective impact on aid volume, it contains two perspectives – the one regional, the other, the emphasis on salient themes – that could make the programmes of all donors, individually and jointly, more effective, whatever their scale.

Any framing of their thinking and programming that external actors do in terms of transnational developing-country regions, to be sure, needs to be sensitive and circumspect. As has been repeatedly emphasized herein, this is a nation-state world. Developing countries are individually jealous of their sovereignty. Where potentially productive multi-country schemes (as they commonly do) involve sensitive issues of regional politics, initiatives typically must come from the region itself; didactic impositions of "rationality" from outside can be counter-productive. Moreover, it is foolish to press transnational schemes whose implementation and successful operation depend on greater levels of stability and/or sophistication in inter-country political relations than yet exists. Often it proves best to package responses to regional problems and opportunities into country-by-country pieces. Yet the opportunities and problems often *are* inescapably regional; it illuminates the thinking of both the external and local actors to see them that way; and such clarified views often lead – in the case of both sets of actors – to more coherent action.

Much the same applies to salient development themes. Picking out pivotal issues for disproportionate attack in particular periods may violate the norms of orthodox country and regional planning, but it is not necessarily bad development strategy. Backward and forward linkages do often work.

At minimum, it is important that, from time to time, and in company with developing-country representatives, donors look at the commonalities – both thematically and regionally – that they already share but about which their joint information is limited. In this connection it would seem desirable to experiment in the near future with a few regionally-defined joint reviews of on-going project and other activity clustering around selected, quite specific, themes of evident interest.

h) A Supplemental Low-Income Country Aid Target?

The following is not advanced out of any great passion for targetry. Moreover, it is literally put as a question, not an answer. However, the present argument has been, all of the distracting hypotheses aside, and despite the awkwardness of the budgetary circumstances, that there is an inescapable need now for DAC Members to undertake a major expansion of their aid to LICs. Any scenario of response that is politically feasible will test the hypothesis, in Chapter I, that in nearly all DAC Members national administrations do possess some option for initiative and incremental change; but it also is almost sure to involve a diversity of particular programmatic responses. Consequently, such a push could benefit, for score-keeping and burden-sharing purposes, from some kind of overarching guideline.

Under these circumstances, the question arises: might DAC Members usefully adopt a percentage-of-GNP norm for ODA to the LICs? In line with what has been said already, a figure of 0.35 or 0.4 per cent might be appropriate. For this purpose, a broader rather than narrower definition of "LICs" – perhaps running up to the IDA-eligibility level – might be reasonable. As between the two numbers suggested, Members might initially well wish to opt for the lower – 0.35 per cent, which itself would involve roughly a doubling of their present performance – then in due course see whether it were important as well as feasible to raise the target. Insofar as an initial norm were formally adopted, its attainment could or could not be time-bound. The present suggestion has been that Members should attempt to complete the basic upward push in the LIC aid level by the middle 1980s.

Under circumstances where total ODA is far below the 0.7 per cent target, a supplemental LIC target would articulate more precisely the intention of concentrating scarce ODA on poorer recipients. Plenty of theoretical room would be left for donors who find reason to channel substantial ODA elsewhere. Yet with the new target, the collective priority would move toward achievement of the LIC norm.

It would endow the present question with too much formality to include a tabulation of where individual DAC Members now stand vis-à-vis one or other of the figures hypothesised. But as they do their own arithmetic nearly all will find that such a norm would in fact be very demanding. Even of DAC's four "front-runners" only one at present has as much as 0.4 per cent of its GNP flowing to LICs. But this is precisely consistent with the foregoing discussion: even though the absolute amounts involved are not by some standards formidable, a significant and difficult collective move needs to be made. Whatever the response to the question of a formalized new norm, *de facto* action very much along the lines such a norm would chart is what is required.

IV

ISSUES OF IMPLEMENTATION : BASIC NEEDS AND AID DELIVERY SYSTEMS

In emphasizing the two central issues of development strategy on which the two preceding chapters dwell, the present discussion deliberately slights most of the questions of substance as well as process that preoccupy development-policy practitioners week in and week out – and, indeed, claim much of the calendar of the Development Assistance Committee. At this point, therefore, there is a simple case of balance for some illustrative references to other topics that, although intrinsically important, are, in the present logic, subsidiary to the themes that already have been highlighted.

But there are better reasons than that for commenting on two of these subjects: whether or not "subsidiary", they will be pivotal to the prospects for a pro-development push, especially in the poorest countries; and DAC has made some progress toward sorting them out during the past year. The two are closely related. First, there has been a further maturing of thought about "basic needs" policy. Second, there has been an evolution of views concerning the effective delivery of aid, especially with a basic-needs orientation.

a) Further on "Basic Needs"

Last year's report by the preceding Chairman of DAC contained a cogent up-dating of the basic needs aspect of aid policy.[1] However, the further illumination of the subject that has occurred meanwhile both in donors' thinking and in recent North-South exchanges warrants additional comment.

Superficially "basic needs" has been a confusing issue for OECD aid donors. They were persuaded to adopt a greater focus on the equity aspects of development, more particularly on efforts directly to address the minimum needs of the poorer, more disadvantaged groups in the poor countries, by the insistent critique of earlier "trickle-down" strategies that dominated commentary during the first half of the 1970s. This view of things was articulated at least as much by developing as by developed-country analysts. It peaked in the nearly unanimous adoption at the ILO's World Employment Conference in 1976 (without major dissent by any developing-country delegation) of a recommendation that a basic-needs strategy be made central to the international as well as domestic aspects of development promotion. Yet scarcely had the Members of DAC, little more than a year later, gone to the rather unusual length of themselves adopting a thoughtful but (in its deference to host governments' priorities and prerogatives) guarded endorsement of just such a focus when it became the official policy of the "77" to attack the basic-needs approach root and branch – as diversionary and unacceptably intrusive – in most international fora.

1. *Development Co-operation, Efforts and Policies of the Members of the Development Assistance Committee, 1978 Review*, OECD, Paris.

At this stage, a number of OECD diplomats, especially those more concerned with the process than the substance of North-South dialoguing, became gun-shy of the basic-needs concept; at minimum, they felt the nomenclature should be abandoned. But now, in 1979, just as this latter was about to become the conventional wisdom, there has been a follow-up meeting on the World Employment Conference in which the delegations of developing countries again have unabashedly reaffirmed the validity of the earlier Conference's findings;[2] there has been a World Conference on Agrarian Reform and Rural Development whose agreed conclusions have been strongly in the same vein:[3] and language pointing the necessity for "social development" that the "77" have injected into the earlier phases of IDS preparation – and even into UNCTAD V – has seemed receptive, except terminologically, to basic-needs-type aid.

Meanwhile, amidst all these perturbations of the dialogue, the OECD development co-operation agencies which are mostly directly represented in DAC have been gathering further experience and learning further lessons in their so-called basic-needs projects and programmes. They are not mystified, moreover, about the apparent conflict of voices from the "77". For one thing, developing countries, like OECD governments, are not monolithic; they are represented at different conferences by different ministries and agencies. More fundamentally, the ambivalence just noted reflects the basic tension within developing-country policies between NIEO-type efforts, which are concerned with improving the parities between states, and on the other hand, policies relating to development, which (as advocated by most developing-country governments) recognise not only needs for internal reform but the usefulness of external assistance in this connection.

As they gather experience with the limitations as well as the strengths of basic-needs assistance, the DAC Member agencies seem to be converging on a set of views or principles that, without claiming to speak for any of them individually, one ventures to outline below. These are believed to be both compatible with developing-country concerns and responsive to donor needs – as posed, for example, by the greater public and parliamentary support that in many countries can be mobilised for anti-poverty assistance.

Most of the development co-operation agencies represented in DAC have no particular stake in the "basic-needs" nomenclature – a number of them were engaging in such activities before the term was invented. But with respect to substance, most of them, on the one hand, would encourage their own political masters to take as flexible an approach to the issue as the following propositions indicate; on the other, however, they would see no cause to temporize on the following kinds of essentials in negotiations with the "77".

i) There is no way, surely, that any comprehensive strategy for the promotion of Third World development can fail to address the internal aspects of development needs (which will dominate the outcomes) or the ways external actors can assist internal efforts.

ii) Choices of developing countries' development goals, priorities, and strategies, lie absolutely with those countries themselves, and wise donors are heavily influenced by such recipient preferences. At the same time, not only is it unavoidable, it is not wrong for donor governments and multilateral agencies (these donor agencies themselves being accountable to political masters) to have opinions about their hosts' needs and priorities. Nor is it wrong, in their discretionary distributions, for them to favour

2. ILO Press Release 24-79 of 27th June 1979.

3. *FAO – World Conference on Agrarian Reform and Rural Development, Declaration of Principles and Programme of Action Document – WCARRD/REP/5, WCARRD/REP/6,* FAO, Rome, July 1979.

programmes on which their hosts' and their own priorities converge. This applies specifically to responses to the needs of disadvantaged and poorer groups.

iii) It is essential to the respect with which sovereign governments must treat one another, but it is also necessary to the effectiveness of the assistance itself, that the manner in which basic-needs assistance is provided and delivered not be perceived as distastefully intrusive by the recipient. Some current DAC reflections on this matter are summarised in the next section. In general, however, the most serviceable procedural formula seems to be for particular recipient governments and particular donors to develop first-hand knowledge of each other and then for donors to provide aid in comparatively flexible and abundant form to those recipients in whose reform and other development objectives, and in whose operating effectiveness, they have acquired on-balance confidence.

iv) It is important that the total shape of OECD development policy provide a decisive answer to suspicions on the part of the "77" that OECD partiality for basic-needs assistance is a disguised means of dampening the general economic growth and forestalling the industrial emergence of the poorer countries. Points *v*) to *vii*) below, together with a redoubled trade liberalisation effort along the lines of Chapter II should lay such fears to rest.

v) Admirable as responsiveness to basic needs is, this should not be an exclusive criterion for aid allocations. The developing countries, including the poorest of them, also need growth, and while their equity and growth needs are mainly compatible, indeed complementary, not all of the assistance needed for growth (or sometimes for pressing balance-of-payments) purposes can be given basic-needs packaging. As was implied at the end of the preceding section, the internal political environments of some donors may require them, as they strive now to expand aid to the poorest countries, to stick closely to basic-needs-only budgeting in their bilateral programming. But if so, such governments should take care not to press the same model on their bilateral colleagues or, in particular, on such multilateral funders as the World Bank.

vi) A related kind of flexibility is needed within the basic-needs spectrum itself. In their first enthusiasm for the approach, many donors sought to target exclusively on the most direct, literally traceable, delivery of benefits to the poorest of the poor. Experience has been teaching almost all DAC donors that such narrowness is contraproductive for the poor themselves. Some of the latter's needs are systemic and can only be met by more generalised or indirect forms of assistance – for example, programme and commodity assistance, even reinforcements of comparatively sophisticated research, programme-analysis, and managerial capacities that can improve the effectiveness with which regimes can organise and operate their anti-poverty efforts. A particular and major set of such relaxations – those with respect to the eligibility of infrastructure projects – was emphasized in the preceding chapter.

vii) Finally, most DAC Members, at least, have a distinct bias as to the content of those basic needs to which they are disposed to give priority. While they do not rule out selected consumption supplements targeted on particularly needy and vulnerable groups, their greater interest is in indigenous programmes that raise the productivity of the low-end poor by giving them more employment, thereby more income, and contribute directly to productive growth, in part through labour-intensive capital formation. This, again, ties back to the infrastructural theme.

If it is understood along approximately the foregoing lines, basic-needs assistance (by whatever name) is seen as a central component of development co-operation in the 1980s.

b) Delivery Systems

DAC donors in recent months also have been moving toward a clarified set of views about "aid implementation" – using this term broadly to encompass alternative programming, administrative, and delivery models. As indicated elsewhere in the Report, this subject has received a general review, prompted by what for the time being was a mounting set of disbursement lags experienced by many donors. The subject also spilled, quite interestingly, as Chapter VIII reports, into a review of the particular relations evolving between official aid agencies and non-governmental organisations; but in the light of what has just been said, the aspect of particular interest here consists of the implementation lessons that are now being drawn with respect to basic-needs and/or rural development assistance.

Most DAC donors as well as the multilateral development banks have been through a distinct learning experience in these fields in the past six to eight years. Convinced of the need for the new approaches being advocated by partisans of "alternative development strategies" in the earlier 1970s, many of them plunged into a new brand of project activity that was determined to get down to the grassroots, sidestep traditional status and authority structures, involve the locals, and make sure benefits did indeed reach the neediest. Moreover, many project designers were seized afresh with the inter-relatedness of everything in developing-country countrysides: they sensed a need, not for working on single sectors, let alone single inputs, but for comprehensive local planning – for doing rural development in the round.

The experiments of individual donors, let alone of donors as a group, followed no single prototype. But many of the experiments (and this was true of ventures mounted by innovative development promoters within the developing countries themselves, with little or no outside assistance) had several of the following characteristics.

i) Individual projects were quite localised; they were confined to small geographic areas and jurisdictions.

ii) They tended to be multi-faceted and multi-disciplinary, therefore operationally difficult to co-ordinate.

iii) Projects involved heavy inputs of expatriate and/or national project personnel. In projects that worked, this tended to make the locals dependent on external inputs of guidance and expertise; it also made the projects difficult to replicate

iv) Very commonly the liberation the experiments sought from the dead hand of established practice and structures took the form of special project authorities that cut across the country's regular functional and/or geographical lines of public administration.

The DAC donor agencies now tend to agree – with many of their counterparts in recipient governments – that a number of these experiments not only have provided expatriates with a rich educational experience; they have produced some valuable and replicable technical, managerial, and institutional insights. But as a *modus operandi* (the common thinking continues) they have some profound limitations. If the experimental designs come from outside, the approach is inherently intrusive. The multiplication of projects depending on heavy injections of non-local expertise quickly can encounter manpower bottlenecks. Instead of reforming and strengthening the standard administrative structures and processes on which countries must rely, the approach is likely to erode and disorganise them. While the mechanism is a good one into which to sprinkle resources experimentally, it is not one through which the enlarged volumes of aid the LICs now need can be made to flow effectively.

As the perception of these difficulties has grown, one response by donors has been to increase the flexibility of the funding conditions under which basic needs and rural development support is provided. Thus in 1977, DAC adopted a guideline more receptive to local-cost financing. This past spring it followed with the same kind of action with respect to recurrent costs. And it seems to be moving toward a renewed appreciation of the useful flexibility that aid packages with an adequate admixture of programme funding can provide to countries pursuing anti-poverty reforms.

Furthermore, the donors are re-examining their procedural models for basic-needs and rural-development assistance of the project type. Some issues still are not settled within donor governments, let alone across the group as a whole. For example, some still see great virtue in comparatively complex multi-purpose rural-development projects; others are more inclined, once again, to go the single-purpose route, trusting to forward and backward linkages and internal market processes to pull complementary activities into line. Some would still prefer to see the operating scale of rural projects (as opposed to the level of donor participation) centred at the village or few-villages level; others now favour projects with much larger geographic and demographic spreads. And while some donors, as well as some recipients, are keen on the benefits that could be had from closer co-ordination of contiguous donor activites, others are mindful of the compounding of procedural complications this could entail (in the absence of great care to the contrary).

However, as already indicated in the discussion of basic needs, on one conclusion from experience there is already the makings of a donor consensus: if the flow of external resources to the LICs for anti-poverty uses is to be increased substantially, donors are going to have to find ways dependably (among other things, in terms of their own accountability requirements) to "wholesale" their resources through indigenous intermediaries. The latter, adding resources of their own and, very possibly, creating incentives for local users to do likewise, would then "retail" the resources to operating projects.

Donors may differ in their choices of intermediaries, some seeking out development banks, funds, or other quasi-autonomous entities, others being content with the mediation of recipient government departments. But in any case, they propose to place the bulk of the operating responsibility on the indigenous system. This kind of aid model would call for careful intermittent negotiations between donor and recipient of the purposes for which and the procedures under which the external resources could be drawn. It would call preferably for multi-year commitments of resources; for intervening accounting by the recipient together with attentive monitoring by the donor agency; and for periodic renegotiation of the whole arrangement. But the on-going administration of project activity would be unilaterally that of the recipient.

It would be misleading to suggest that all or even most DAC donors are yet prepared to accept the procedural model just sketched, but it is in some such direction that their maturing views of anti-poverty funding seem to be headed.

V

DEVELOPMENT POLICY : A BROADENED, CHANGING BUT BOUNDED GAME

It is useful for bilateral and multilateral specialists in development promotion to keep updating their perspectives of the span, structure, and limits of the policy game in which they are engaged – for the game keeps changing.

Recently the subject-matter span has been widening, or, to put the same point differently, the inter-relatedness of different sectors of policy bearing on development is being more commonly recognised and reflected in governmental structures and assignments. Thus the constituents of DAC, for example, are a set of "aid agencies". But within their governments many of these now are allowed, at least as co-ordinate participants, to range into such adjacent and related issues as trade and non-concessional finance. Sweden, the Netherlands, and Norway all are notable, at the moment, for the energy with which they are seeking genuinely to integrate their whole gamut of development policies. The United States has just established a new overarching agency, IDCA, with such a mission. The President of the World Bank devotes his whole address to UNCTAD V to the subject of trade.

In short, the seamless-web view of development policy is in fashion. It is favoured within OECD generally and with respect to DAC in particular; it is reflected in this Report, especially in Chapter II. But to understand the development-policy game, one must understand more than, as it were, these horizontal linkages cutting across it. The former, in the first place, has certain central themes and thrusts that give it shape at any given time. What these should now be for the medium-time-being – namely the trade and transfers connection between the industrialised countries and the middle-income countries, and an effort to increase the quantum of useful aid to the LICs – is unmistakable in the present view.

But then, second, a number of other issues orbit around these temporarily abiding themes, competing for attention. An active development-policy player has a sense of those subjects that have been only on the fringes of the general policy debate lately which are likely to be pressing in for closer consideration in the next rounds of play. And, third, if he is a realist, he will also keep himself reminded of the kinds of issues that, although highly relevant to development outcomes, are apt to remain beyond the reach of development-policy specialists like himself.

The present chapter touches briefly on these final two dimensions of the game – on certain topics that may be newly emerging, and on others that are likely to remain off-limits.

a) Matters that May Invite Increased Attention

In drawing up a short list under this heading, one has in mind general multilateral development fora – bodies looking at development-promotion needs comprehensively, not just sectorally, and seeking an exchange of views across governments, not only within single governments. DAC, of course, is one such body, but it is not the most catholic, let alone the only, one. Without attempting any calculations of priority among the following subjects or between them and other priority claimants for the scarce time of such fora, it is suggested that each of five topics is a good candidate for greater attention in the near future.

i) *Human Rights*

This is a sensitive subject. Some would see it, like the issues noted in the next and final section, as "too political" to suit the manners and style of development-specialising multilateral organisations. But in fact it is a matter of day-to-day concern to many DAC donors in the conduct of their development co-operation programmes. It interpenetrates questions of equity and participation that, as it were, are permanently docketed on donor agenda. Moreover, the greatest hazard that the injection of human-rights considerations into aid operation runs, namely, ethnocentrism – the uncritical projection of one culture's values onto another – is greatest under the arrangement we now by default follow, i.e., unco-ordinated bilateral action. There is, in fact, a universal, common-denominator core of human-rights concern that extends across most of the world including the Third World. One hopes, therefore, for a time when the issue can be mainly shifted to multilateral fora and when attention to minimal, non-parochial human-rights standards will be a normal feature of development co-operation activities within the UN family. Meanwhile, a careful joint review of the subject by the Members of DAC could be a step in the right direction.

ii) *Population*

The international community mounted a towering wave of concern about the population dimensions of development during the latter 1960s and early 1970s. In some respects, the vehemence of the effort was overdone, and the backlash from many developing countries, especially at the Bucharest Population Conference in 1974, was followed by a subsidence, at least in the general profile of population activity. Meanwhile knowledge of the subject has progressed. The interlinkages between the demographic and other dimensions of development are better understood; some benign interconnections between fertility and such selected dimensions of welfare as child mortality and female literacy have been discovered, at least in certain countries and regions. The important but confusing lessons of the Chinese experience are still being sorted out. In terms of positive fertility-curbing programmes, some Third World governments have moved quite vigorously on their own. Significant external support continues to be provided by the UNFPA, some of the bilateral donors and multilateral development banks, and by private agencies. There has been a widespread tendency toward greater integration of anti-fertility and maternal and child-care activites.[1]

So all, certainly, is not unwell on the population front. Yet the extent to which demographic changes promise to encroach on gains in per capita welfare, especially for the poorest groups and classes, to the end of the century and beyond remains formidable. At least with regard to the effects on the poor, prospects are alarming in those countries, mainly some in Latin America and Africa, whose governments continue to abstain from population restraint initiatives – without, for some time now, audible encouragement to the contrary by the international community. It is time the whole subject of population was again taken up for serious review by general development policy bodies.

1. For an account of developments since the Bucharest Conference, see *Changing Approaches to Population Problems*, M. Wolfson, Development Centre, OECD, Paris, 1978.

iii) *Food aid*

Multilateral bodies specialising in food and agriculture exercise surveillance over this subject, of course. But in a sense this aggravates the tendency – one mirrored in some DAC Member capitals – for food aid to be left aside, to be treated as a poor cousin, in the calculations of general development assistance planners. The tendency has been compounded latterly by the fervour with which the possible disincentive effects of food aid have been discovered in many quarters (a phenomenon a little like fighting the last war, since, rather clearly the problem – which has been real in some past food aid cases – is one against which fairly satisfactory defences can be devised). In a period when one of our great challenges – that of sharply expanding the volume of usable aid to the poorest countries – will be met only if we manage intelligently to piece together a number of good second-best solutions, a fresh review of the alternative functions, modes, limitations, and potentials of food aid in a general development policy forum would have much to recommend it.

iv) *Industry and Energy*

Donors' recent anti-poverty and pro-rural-development emphases have been accompanied by reactions against the kinds of assistance to the industrial and especially the energy sectors that used to be the staples of many programmes (although, in fact, the shares of such aid in the composite allocation of DAC Members have remained fairly high). The present reasons for renewing attention to energy are obvious and have been indicated earlier in this Part. With respect to industry, the case is twofold. There is need, on the one hand, to be more responsive in, as it were, NIEO terms to the developing countries' interest in increasing their participation in global industrialisation. On the other hand, the pivotal role that decentralised, labour-intensive, often very small-scale industrial activity can play in providing more income and employment to the poor – particularly the landless poor – deserves greater emphasis.

v) *Environmental Repair and Protection*

Through most of the 1970s this topic has been the subject of many pious footnotes to development-co-operation debates that were preoccupied with distributing scarce resources across priority objectives. Everyone was for ecological protection but few could afford it. Latterly, the linkages between objectives have become plainer – for example, the absolute urgency of soil conservation and upper watershed management for longer-term agricultural prospects, the possibility of substituting village woodlots and biogas for deforestation and dung-burning as village energy sources, and the employment potentials of environmental investments. Moreover, to the extent it is accepted, a general point that has been emphasized here – namely, the appropriateness of more long-gestation, low-discount-rate investments in the LICs – will lower the benefit-cost hurdles ecological projects will need to clear.

One hopes, over the next few years, to see the environment issue move toward centre-stage in the work of general multilateral development-policy groups.

b) Issues Beyond Reach

At the beginning of the chapter, it was noted that the authorised span of attention of officials assigned to promote Third World development has been broadening recently. Particularly under these circumstances, it is healthy for development promoters to remind themselves that there remains always a variety of factors, forces, and issues that lie beyond their permitted reach, any one of which can affect the course of development in a particular developing country, often in large groups of those countries, more than all the variables and efforts over which the development professionals hover.

During 1979, for example, probably nothing else has had a more complex, reverberating (and still not very well diagnosed) impact on prospects for development than the events in Iran. And yet, even given perfect hindsight, if one asks what alterations in the work programme or meeting calendar of DAC in earlier years would have had a significant probability of improving the anticipation, let alone altering the course, of those events, one comes up with small answers.

The reasons certain extremely relevant issues remain beyond the reach of the development professionals partly concern the latter's own limits of time and competence, but mainly they reflect the division of labour within governments. The subjects ruled out of bounds to the development agencies – and to a collective body like DAC as well as such multilateral donors as the World Bank and UNDP – are usually excluded on the grounds that they are too political.

The boundary is not sharp or fixed. If, for example, the suggestion above about the human-rights issue were accepted, this would represent the introduction into multilateral development-policy fora of a matter that many previously have found too divisively and sensitively political to be appropriately discussed there. Migration from and among developing countries has profound effects on comparative development experiences, as well as on relations between governments; its impacts necessarily are studied by development planners and taken into account in their projections; but migration *policy* issues are not now commonly addressed in multilateral consultations whose focus is on development. They could be; but one guesses that those who allocate issues will continue to route them elsewhere.

Some development-related issues plainly are beyond the reach of officials specialising in development. The latter may encourage their intellectual counterparts in the private sector to publicise comparisons between global allocations to military spending and to development, but they do not, within their own governments, challenge the defence budget head-on. Although increasing their attention to developing-country energy problems, they do not expect to participate in discussions of nuclear proliferation. They do not even – although this is rather harder to take because of its direct and telling development impacts – expect to be drawn much into the subject of arms sales to the Third World.

In a sense, these frustrations are fair exchange. Typically, the development promoters within DAC Member governments have sought insulation from the turbulence of day-to-day foreign-policy politics, and in most cases they have been accorded some degree of this. They, like their counterparts in the developing-country agencies and ministries with which they deal, have been given a measure of running room to abstract a certain set of objectives and dimensions from the rest of reality and press a sustained programme along these lines. The quasi-abstracted slice of activity on which they have the privilege of concentrating is important, consuming, and personally rewarding. There should not be excessive dismay when, from time to time, the rest of the real world rises up and smites the effort.