Development Issues

U.S. Actions Affecting Developing Countries

The 1984 Annual Report of the Chairman of the Development Coordination Committee

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

March, 1984

TO THE CONGRESS OF THE UNITED STATES:

The Annual Report on Development Coordination discusses the events of the 1983 fiscal year in accordance with the requirements of the Foreign Assistance Act, as amended. It represents the cooperative efforts of the member agencies of the Development Coordination Committee (DCC), under the coordination and overall responsibility of my staff. An additional section has been incorporated into this year's report which discusses special concerns and new initiatives undertaken during the previous year.

The DCC, which I chair, was established by Congress to assure coordination of development policies and programs within the U.S. Government decision-making process. Such coordination has both formal and informal aspects. On the more formal side, coordination occurs through the DCC and its subsidiary bodies, including the working group on multilateral assistance, the subcommittee on food assistance, and of course the working group which collaborated in the production of this report. The other major mechanism of formal coordination entails participation by myself or members of my staff in the work of such interagency groups as the National Advisory Council, the Trade Policy Committee, the Cabinet Council on Economic Affairs, the Senior Interagency Group on International Economic Affairs, and others. On the informal side of coordination, 1983 saw a continuation of the daily working relations between members of my staff and other agencies of the U.S. Government, with my own personal involvement as needed. We have thus continued to fulfill the mandate of ensuring that development goals and issues are taken into account in Executive Branch decision-making processes on international finance, investment, trade, technology, and other policy areas affecting developing countries.

Over the last few years many developing countries have faced severe economic problems which have reduced these countries' capacities to address their longer term development problems. However, during the latter part of 1983, economic recovery was clearly underway. As this

recovery spreads, it will be particularly important to the middle and higher income countries who have a greater capacity to adjust and respond to the economic opportunities of the recovery. Nevertheless, for many developing countries, particularly the low income countries, the economic situation is still very serious. U.S. bilateral assistance and support for multilateral assistance during 1983 continued to provide the necessary resources to help these countries avoid serious disruption of their economies, while at the same time laying the framework for long term economic growth by addressing the fundamental development constraints faced by the developing countries.

Over the course of the last two years, considerable international attention and effort has been focused on ways to address the problem of escalating external indebtedness. Banks in the U.S. and abroad have become more cautious in their lending policies, but, at the same time, realize it is in their best interest to continue lending to countries pursuing sound adjustment programs. They have worked closely with borrowers, creditor governments and the international institutions to assure the restructuring of existing debts and to increase their net lending to developing countries, including some of the most troubled borrowers.

U.S. policy in 1983 again reinforced our long-standing goal of providing necessary resources to address basic constraints to development. As in previous years, we continued to emphasize that developing countries establish sound economic policies in an environment conducive to encouraging private sector initiative. We assisted in creating and strengthening developing country institutional capacity and in developing and adapting appropriate technologies to developing country circumstances. In providing this assistance, we have attempted to create a climate of mutual cooperation and respect to encourage the design of effective programs benefitting that segment of a developing country's society with the greatest need, the poor majority.

Cordially,

M. Peter McPherson

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I

INTRODUCTION

The International Environment for Development in 1983

Economic recovery, led by the United States and a number of developed countries, was clearly taking hold during the latter half of 1983. This recovery is particularly important to the economic prospects of the middle and higher income developing countries which have the capacity to respond to improved international economic conditions. Nonetheless, for many developing countries, particularly the low income countries, the economic situation is still very serious and many of these countries will continue to experience difficult economic conditions including severe balance of payments constraints, high unemployment, slow growth and for some declining per capita income. Some developing countries have, however, contributed to these problems by adherence to inappropriate economic policies and failure to take on a timely basis the policy measures required to adjust to the international economic environment and domestic economic conditions.

In the area of international trade, 1982 was the second consecutive year since 1958 in which the value of world trade declined from the level of the previous year. Between 1980 and 1982, exports from all countries declined by about 5 percent a year. The exports of the non-oil developing countries, however, declined by a modest 1 percent during that period--not nearly as large a drop as the decline in the exports of the rest of the world. This is largely the result of dynamic export performance by a number of newly industrializing countries, which have succeeded in expanding their manufacturing base beyond the production of simple labor-intensive goods. By contrast, the slowdown in world import demand has been very damaging to primary-product exporters, most of which are lower-income developing countries. The United States and the other developed countries have called on all nations to commit themselves first to a reduction in protection and then, as the recession is brought under control, to a gradual roll-back of trade barriers. Such a program would enable countries, particularly the high-debt developing countries, to increase their exports. (Chapter II.B. reviews the international trade trends of 1982, including US commercial policy measures affecting the developing countries.)

With regard to private international lending, Chapter II.C. notes a continuation in 1983 of the earlier deterioration in the aggregate financial position of developing countries. Due to the heavy external borrowing in 1974-82, the current

financing difficulties are much more serious than they were in the period following the first oil shock and the task of developing countries' debt management is correspondingly more complex as well as politically and economically difficult. At the same time, the growth of private bank lending to LDCs continues to reflect a sharp slowdown, particularly in lending to Latin America. For the low-income developing countries, much less dependent on private borrowing, another constraint on development will be the projected slow growth of official multilateral and bilateral flows.

US private direct investment (see Chapter II.D.) in developing countries continues to provide an important resource to the developing world, although its distribution is heavily concentrated in a few higher-income developing countries. It is US policy to permit the market to work freely to determine the geographic allocation of direct investment. Within this general framework, however, the potential contribution made to economic development by private investment flows is recognized. Accordingly, the United States continues to facilitate these flows, by supporting such institutions as the Overseas Private Investment Corporation (OPIC - see Chapter IV.D.), and the International Finance Corporation (IFC - see Chapter IV.A). In addition, during 1983, the United States continued the Bilateral Investment Treaty (BIT) program initiative with interested developing countries, continued to support consideration of an appropriate multilateral political risk insurance program, and has been participating actively in the UN negotiations on a code of conduct relating to transnational corporations.

The economic policies of the developing countries remain an important ingredient of successful adjustment to international trends, and Chapter II.E. explores the principal policy issues at stake. Finally, major events of 1983 concerning the North-South dialogue to better the international economic environment for developed and developing countries alike are recounted in Chapter II.F. The United States joined with the other participants attending the Sixth United Nations Conference on Trade and Development to pledge cooperation with the developing countries to strengthen the multilateral trading system, and to cooperate in other practical ways.

US Economic Assistance Priorities

Part III of this volume reviews the major objectives and priorities of US assistance for development, through bilateral programs (Chapter III.A.), and through its support for multilateral institutions (Chapter III.B.). Four priorities cut across all programs of US bilateral economic assistance.

These priorities are also consistent with priorities stressed in US multilateral programs. They are the following:

-- Policy Dialogue: The United States will use its assistance to support an aid-recipient's economic policies when they are deemed effective, and to promote their improvement when they are deemed less than effective for long term economic development.

-- Private Enterprise : Competitive markets offer the best means of achieving the objective of helping LDCs meet the basic human needs of their poor majority through sustained, broadly based economic growth. Therefore, the US economic assistance program will seek to promote open and competitive LDC markets and to support LDC policies that permit the exercise of the indigenous private sector initiative and ingenuity. Underlying this emphasis on building an indigenous private sector is AID's recognition that the development of a strong non-government sector is critical for the long-term preservation of civil and political rights in a society.

-- Institutional Development: Effective development institutions enhance a country's ability to marshal its own human and other resources for development, help men and women gain access to the skills and the services needed to increase their productivity and income and to increase the country's absorptive capacity. It is US policy to help developing countries establish and strengthen public and private institutions in support of mutually agreed, priority development objectives.

-- Technology Development, Transfer, Adaptation, and Extension: Economic growth requires the indigenous capacity both to develop and to apply a continuing stream of innovations designed to increase productivity, employment and incomes, and also to evaluate and adapt technologies transferred from industrialized countries. The United States is expanding its efforts to strengthen the technological capabilities of developing countries with major emphasis on research and development in all priority sectors of aid concentration.

The three major sectoral priorities for US bilateral economic assistance remain food and agriculture, energy, and human resources (including population). In the area of food and agriculture, nutrition and food security are the principal goals -- still considerably far off into the future. Outstanding successes have been achieved in recent years, however, particularly in improving the productivity of small farmers. In the area of energy, although decreases in the price of oil were experienced in 1983, difficulties stemming

from the earlier increases and from the international recession will continue to require difficult adjustments. Most developing countries face also the specific challenge of finding alternatives to their heavy dependence upon traditional fuels such as fuelwood and wastes. The United States encourages developing countries to expand production of their indigenous energy resources, renewable as well as conventional -- with the principal impetus being provided by private sector investment. In the area of human resources, including health, nutrition, education, and population, US assistance continued to emphasize in 1983 those activities that benefit the largest possible cross-section of the population.

The fundamental US interest in international stability and economic development is well served not only by its bilateral assistance program, but also by channeling appropriate resources to the multilateral development banks (MDBs), and to United Nations specialized agencies. Chapter III.B. outlines US priorities for multilateral development assistance provided through these organizations. As noted above, these priorities are consistent with those stressed through the bilateral assistance program. In 1983, the United States has continued to work constructively with other countries to improve the effectiveness of the MDBs and of UN programs. Chapter III.C. provides a brief overview of the Reagan Administration's initiatives to enhance the effectiveness of US economic assistance in 1983.

Official US Support for Development

Part IV of this volume includes chapters on multilateral activities and programs describing in some detail international organizations in which the United States participates. Other chapters provide a detailed treatment of the US bilateral economic assistance programs, from those of AID's Development Assistance account, the Economic Support Fund, PL 480 to the programs of the Overseas Private Investment Corporation, the Trade and Development Program, the Peace Corps, the Inter-American Foundation, and the African Development Foundation.

II

DEVELOPING COUNTRIES IN THE WORLD ECONOMY

Chapter II.A.

Development in 1983

Economic recovery from the 1980-82 recession was clearly taking hold during the latter half of 1983. The recovery has been centered in the United States and a number of other developed countries. The feedback effects of this economic recovery to developing countries are expected to be seen during 1984. This recovery is expected to be particularly important to the economic situation and prospects of the middle and high income developing countries who have the capacity to respond to improved international economic sitations. Nonetheless, for many developing countries, particularly the low income countries, the economic situation is still very serious and many of these countries will face difficult economic conditions and choices over the foreseeable future.

Global Recession

The world-wide recession of 1980-82 was no simple repetition of the recession of the mid-1970s. Following the jump in oil prices in 1973 GDP growth rates in the industrial economies fell sharply for two years and then recovered rapidly. During the same period world trade declined for two years and then rapidly recovered (see Chapter II.B.). In the oil importing developing countries as a group there was only a modest pause in GNP growth rates. Developing countries were able to follow counter-cyclical domestic policies and borrowed on the international capital markets in an effort to maintain their GNP growth. In contrast the world recession that followed the 1979 oil price rise was longer and the recovery generally has been much weaker. The industrialized countries tightened monetary controls to bring down inflation and thus sharply reduced domestic demand. Unemployment in the industrial countries rose to the highest levels in 40 years and major industrial sectors went into a massive contraction which provoked an increase in protectionist measures. Some developed countries and many developing countries initially tried to handle this recession in the same manner as they did in 1974-75: i.e., failing to take the policy measures required to meet a rapidly changing economic situation; attempting to maintain their domestic GNP growth by expansionary domestic

policies, increased exports and increased international borrowing.

The economic recovery policies that have proven successful in the current recovery have generally been quite different from those that were used in the last recovery. Both developed and developing countries which have failed to recognize this fact have suffered. The policy response to the 1974-75 recession, expansionary counter cyclical domestic policies pursued vigorously by both developed and developing countries, led to unsustainable growth with a high inflationary bias. In the OECD, for example, inflation ran at some 8-9 percent on average for the length of the recovery. This "quick fix" of expansionary, but inflationary policies provided only a temporary postponement of difficult yet increasingly necessary policy adjustments that would only become more difficult and more necessary in later years. In developing policies to deal with the 1980-82 recession many countries recognized the error of inflationary policies and adopted a set of policies for sustainable recovery based on non-inflationary growth.

A fundamental difference between this recovery and the last is that for those countries in the OECD for whom it has begun, it is taking place with a much lower rate of inflation, some 3-4 percent on average. The levels of economic growth--again in those countries that have begun to emerge from the recession --are roughly equal to historical levels of growth in early recovery periods following a recession. In contrast, countries which have attempted to deal with the economic difficulties, of the last few years by adopting expansionary policies have generally experienced a rapid deterioration in the balance of payments situation, continued high inflation and continued economic stagnation. It is important to note that this is not phenomena exclusive to the developing countries. Developed countries which have dealt with the recession through expansionary policies have encountered the same type of economic problems as have the LDCs who have adopted this course. While the spread of recovery to developing countries has been slow, those that have made significant strides in adjusting, have pursued export-oriented growth strategies and have let domestic prices reflect the changing international situation, appear to be recovering much more rapidly. Correspondingly, developing countries which pursued export-oriented growth strategies and let domestic prices reflect the changing international situation were as a group less affected by the recession than those who relied more heavily on domestic expansionary policies.

In the mid-1970s recession, the industrial countries had two years of falling GNP growth and then a strong but short recovery. International trade volume also declined for two

years and then rapidly recovered. In contrast, the recovery from the 1979 recession was delayed and the industrial countries suffered four consecutive years of falling GNP growth rates. It was not until 1983 that a recovery of demand and output was clearly evident in the United States followed by a much slower recovery in the other industrial countries. The growth in the volume of world trade, which showed only a mild pause in the mid-1970s, was stagnant for the three years 1980-1982 and was only beginning to show modest strength toward the end of 1983. The unexpected length and depth of the global recession coupled with the high levels of external debt which already existed in many of these countries limited the ability of developing countries to borrow from international markets. Furthermore, the failure of some developing country borrowers to initiate economic reform measures led to a reappraisal of their creditworthiness by commercial lenders and an abrupt cutback in private financial flows.

GNP Growth

For most of the industrial countries 1983 marked the end of the recession although growth rates in most OECD countries remain low and unemployment remains high. However, most developing countries have not yet experienced a recovery in their domestic or international domestic situation. Many developing countries have found it necessary to adopt severely contractionary policies to lower imports and to reduce their unsustainably high current-account deficits. Economic stagnation or decline was widespread. While there were differences among countries in the degree and timing of economic slowdown, for nearly all non-oil developing countries, 1983 marked the fourth year of positive, but declining GNP growth rates. For some of the low-income countries, per capita income has actually been declining.

The largest drop in output was concentrated in Latin American countries where output actually fell for the third year in a row. This marked deceleration was due to substantial declines in the growth rates of some of the larger Latin American countries (Argentina, Brazil, Mexico) all of which had to adopt restrictive policies aimed at restoring internal and external balance. Low-income countries in Asia maintained respectable growth rates, as India's and China's large domestic markets provided some insulation from the recession. Most alarming was the continuing economic stagnation in low-income Africa where per capita GDP has declined steadily since the early 1970s. The severe drought of 1981 and 1982 affected not only the Sahel region but also Southern Africa. The major exceptions were East Asian countries which saw their growth reduced well below historical trends but still well above the

rates of growth in most other developing countries. Even though they have a high dependence on trade, they have moved away from reliance on primary commodity exports into manufactures. In this recession, LDC manufactures exports suffered to a much lesser degree. In addition, their more flexible economies rely to a large extent on market price signals which enabled them to cope better with the adverse international environment.

Trade

The closer linkage between changes in the industrial countries and LDC domestic growth rates shown during the present recession suggests that there has been a progressive integration of the world economy, particularly for the more advanced developing countries which are heavily dependent upon the industrial world for exports of manufactures and intermediate products. This is due in part to the fact that until the recent recession, developing country trade with industrial countries represented a growing share of their GNP. During the last three years non-oil developing countries have had record current account deficits--$108 billion in 1981, $87 billion in 1982, and an estimated $68 billion in 1983. Though lessening, these deficits were substantially above the $40 billion average of the mid-1970s recession and now represent a larger share of developing countries' GNP. The decline in the current account deficit was brought about by a sharp reduction in imports rather than an expansion of exports. Reduced imports has meant shortages, idle capacity and reduced output for many LDCs.

The string of large deficits reflects a combination of interrelated factors: the doubling of oil prices in 1979-80; the sharp rise in interest rates from mid-1979 through early 1982; the severe slowdown of economic activity in the industrial countries; deteriorating terms of trade; and, for some developing countries, unduly expansionary domestic measures and unsound exchange rate policies, which tended to enlarge already growing external imbalances or to prevent adjustment. While inappropriate economic policies were a major factor, the deterioration in the terms of trade was serious. In 1982, the non-oil developing countries' terms of trade were at their lowest level since the early 1950s. In particular, the terms of trade of countries whose exports consist mainly of primary products underwent a very substantial deterioration. The newly industrialized developing countries suffered a much more modest loss in terms of trade as their manufactured goods suffered only modest price declines. One bright sign, towards the middle of 1983, was a firming in prices of agricultural raw materials, minerals, ores and metals as the start of recovery

in the industrial countries bid prices up from their recession lows.

For non-oil developing countries as a whole, real growth in export volume slowed from a growth rate of 9 percent a year in 1978-80 to 6.3 percent in 1981. In the 1982 recession trough export growth was only 0.8 percent. With the start of recovery in 1983 it increased to 4.7 percent. Export prices, which had declined 8 percent in 1982, increased 1.4 percent in 1983. The minimal increase in export volume and prices meant that estimated 1983 export receipts of $350 billion were only 7 percent higher than in the pre-recession year 1980.

On the import side, the expansion of earlier years came to a virtual standstill in real volume terms, dropping from 9 percent growth in 1978-79 to about an 8 percent decrease in 1982 and an estimated 2 percent growth in 1983. As in past years, the situation was most severe in the low income developing countries. The middle income developing countries had to cut back sharply on their imports as net inflows of private credit were sharply curtailed. For all developing countries, the real volume of 1983 imports was below the pre-recession level of 1980. Such a sharp decline had not been seen in any recent global recession.

The effects of the recession have not been confined to merchandise trade. Services have also been adversely affected. The developing countries' service account deficit increased over the last four years, largely due to a leveling off in remittances from expatriate workers, a decline in tourism earnings and, most important, a sharp rise in debt servicing costs as interest rates doubled between 1978 and 1981.

External Finance

Nominal interest rates on international borrowings started to decline from their historical highs in 1982. However, real rates (adjusted by world inflation) remained at near record levels. Most borrowings are denominated in U.S. dollars. With LDC export prices falling, a significant strengthening in the dollar served to further increase debt servicing difficulties. Starting in mid-1982 commercial banks reduced their lending because of concern over developing countries' prospects and the already high exposure of many banks. Net banking flows dropped by a third in 1982 and another third in 1983. Starting in the third quarter of 1982 disbursements to developing countries dropped below the level of principal repayments. The trend continued into 1983. The reduction in lending might have been even greater, except for the efforts of the United States, the IMF and other industrial countries to maintain lender

confidence. With private direct investment, and official concessional and non-concessional flows not increasing, the drop in capital flows had to come out of reserves or the trade account. Foreign exchange reserves had already been run down in 1982 so, with capital flows declining, the reduction came out of merchandise trade. The already discussed sharp drop in export prices and decline in the rate of export volume growth forced developing countries to lower their imports and hence their GNP growth rates.

The reduction in the current account deficit was most dramatic in Latin America where it declined from -$45 billion in 1981 to -$21 billion in 1983. In Asia the magnitudes were less but still dramatic--from -$10 billion in 1981 to -$4 billion in 1983. Africa, which had a much smaller dependency on private capital, saw little change in its already small current account deficit. The reduction of private capital flows was initially concentrated in a few middle income developing countries that experienced debt servicing difficulties. However, the ripples spread from the major debtors in a growing wave to affect nearly all private capital borrowers.

As noted in a recent IBRD report on Africa, developing countries are increasingly recognizing the importance of sound economic policies and are taking action to address the distortions in their economies which have hindered economic growth. With varying degrees of success, many developing countries have implemented structural adjustment measures designed to: reorient domestic resources more into export production; curb domestic demand and government deficits as a means of reducing inflation and import requirements; and generally to bring their economies into line with the changing international economic environment. Further adjustments in economic policies are needed in many developing countries to achieve a sustainable economic position.

In addition to production and energy policy adjustments, most developing countries have had to adopt restrictive policies designed to further restrict domestic demand in order to control inflation and to reduce their external imbalance. In many cases, investment and other development expenditures have been sharply reduced. In some cases, this represents an adjustment to a more sustainable growth path. However, in low income developing countries, with growth thus further constrained, the implications for stability and longer-run economic progress are serious.

Chapter II.B.

INTERNATIONAL TRADE

US Policy

The developing countries provide an important and growing market for US exports. In 1982, more than one quarter of total US exports went to the non-OPEC LDCs. Most developing countries, however, still maintain significant barriers to imports. US trade policy towards the developing countries is to encourage the further integration of the LDCs--particularly the advanced developing countries--into the world trading system by lowering their barriers and opening their economies to imports. At the GATT Ministerial meeting in November 1982, the United States promoted the concept of a new round of trade negotiations between the developed and the developing countries. This concept was further developed at the Williamsburg Summit in May 1983 when the leaders of the industrialized nations declared their intention to "work to achieve further trade liberalization negotiations in the GATT, with particular emphasis on expanding trade with and among developing countries."

Recent Trade Performance of Developing Countries

For the first time since 1958, the value of total world trade fell in 1981 from the level of the previous year. This downward trend continued in 1982 when total world trade declined from the 1981 level by 7 percent. (It is estimated that total world trade will increase by about 1 percent in 1983.) Sluggish export performance in 1981 and 1982 can be attributed for the most part to low worldwide growth rates and reduced import demand particularly in the industrialized countries. Despite a 1 percent increase in South-South trade (which it is estimated could grow by 2 or 3 percent in 1983), the developing countries still relied on the developed nations to buy 55 percent of their exports in 1982. The reality of interdependence means therefore that an extended period of slow growth or a lingering recession in the major developed countries can adversely affect the ability of LDCs to earn foreign exchange, forcing them in turn to reduce their own imports significantly.

The decline in world trade in 1981 and 1982 contrasts sharply with the average rate of nearly 16 percent a year at which world trade grew in the 1974-1980 period (see Table 1). During that time, the developed countries increased their exports and their imports by about 15 percent, the OPEC countries increased their exports by almost 17 percent and their imports by 23 percent and both the exports and the

imports of the non-OPEC developing countries grew by about 17 percent.

The impressive growth in the exports of developing countries has been generated primarily by a group of countries (e.g., Korea, Singapore, Taiwan) which have spearheaded the worldwide expansion of trade in manufactures. These countries launched themselves into international markets by exporting labor-intensive goods such as textiles, apparel and footwear. They are now expanding their manufacturing base by moving into higher technology goods such as consumer appliances, electronics and computers as well as oil rigs and hydroelectric generators. These countries are able to maintain their competitive edge because they have a relatively low wage structure and because they place strong emphasis on technology development and engineering capability. They can also attribute their success in large measure to the elimination of disincentives to export (e.g., overvalued exchange rates), free trade in industrial inputs, realistic encouragement of investment, and reduced reliance on centralized decision-making.

A second group of countries (e.g., Cyprus, Indonesia, Morocco, the Philippines) have followed more recently in the footsteps of the newly industrialized countries, fuelling economic growth by exporting labor-intensive manufactures at internationally competitive prices. Having expanded their exports of manufactures at a rate of over 20 percent throughout the 1970s, these countries have also established themselves as reliable suppliers in many markets; their exports are not likely to be as affected by reduced import demand as are the exports of other LDCs.

The 1980-82 slowdown in world economic activity has been very damaging to those developing countries that are heavily dependent on exports of primary commodities. Even the oil-exporting countries experienced an annual decline of 14 percent in the value of their exports in the 1980-82 period. Countries that export primarily non-fuel primary commodities, however, suffered a particularly sharp deterioration in their export earnings as the world recession weakened the market for their exports. The relative decline in the prices of these commodities, especially when compared to rising prices of fuel and manufactured goods, intensified the difficulties the non-OPEC LDCs have had in paying their import bills. In addition, the ability of these LDCs to service large dollar-denominated debts and to continue to borrow has been severely affected by both their reduced export earnings and by the strength of the US dollar.

United States Trade with Developing Countries

The size and openness of the US market have continued to provide the developing countries with an enormous market for their exports. As Table 2 shows, US imports from the non-OPEC developing countries have continued to grow amounting in 1982 to nearly $68 billion, or 22 percent of these countries' total exports. Imports from these countries are expected to be almost $78 billion in 1983--an increase of 15 percent over 1982 figures. The non-OPEC developing countries also absorbed a substantial proportion of US exports--28 percent in 1982. This exceeds the value of US exports to our two largest single country markets, Canada and Japan, combined.

In 1980, the United States recorded a trade surplus with the non-OPEC developing countries for the first time in five years; in 1981, however, this surplus diminished to $500 million and in 1982, due to a significant decline in the level of US exports, the US deficit with the non-OPEC developing countries was the highest it has been in over a decade. It is estimated that the 1983 US trade deficit with the non-OPEC LDCs will be considerably higher because of the increase in imports and decrease in exports to these countries. This situation is partially offset by the decline, since 1980, of US imports from OPEC and the reduction in our deficit with the oil-exporting countries. Taking the last decade as a whole, a balance in US-LDC trade is readily apparent. In 1972-82, cumulative US exports to the non-OPEC developing countries amounted to $414.7 billion compared to imports of $427 billion.

US Trade Actions Affecting Developing Countries

Despite growing pressures for protection in the midst of slow economic growth, the United States kept to a minimum new trade restrictions against imports from LDCs; it has also gradually been phasing out most existing restrictions. The temporary duty increase on mushroom imports expired on October 31, 1983. This action will affect favorably imports from suppliers such as Hong Kong, Korea, and Taiwan. The temporary additional tariff on imports of porcelain-on-steel cookware, which is supplied by Taiwan, Mexico, and developed countries, was reduced from 15 to 10 cents a pound. The global quota on clothespins was extended in 1982 at existing levels and will expire in January 1984. The United States imports clothespins primarily from Taiwan, the People's Republic of China, and Eastern European Countries.

President Reagan's decision to grant the specialty steel industry four years of import relief pursuant to an investigation under Section 201 of the Trade Act of 1974 will have a restrictive effect on specialty steel imports from

developing countries such as Brazil, Korea, and Mexico. This relief, which went into force July 20, 1983, consists of additional tariffs and quotas. The tariffs apply to stainless steel sheet, strip and plate and will be phased out over the four year relief period. Stainless steel bar, rod and alloy tool steel have been placed under quotas which will be increased by 3 percent a year.

In accordance with cases brought under US countervailing duty law, countervailing duties were imposed for the first time in 1983 on wool from Argentina, on cotton yarn and cotton sheeting and sateen from Peru, on toy balloons, carbon black, polypropylene film, pectin, certain iron-metal construction castings, and litharge red lead and lead stabilizers from Mexico, on frozen concentrated orange juice, certain tool steels and certain specialty steel products from Brazil, and on certain steel products from Korea. Countervailing duties continued to be levied on yarns of polypropylene and ceramic tile from Mexico, on leather wearing apparel from Mexico and Uruguay, on fresh cut roses from Israel, on pig iron from Brazil, on oleoresins from India, and on non-rubber footwear from Argentina. Dumping duties were imposed for the first time on shop towels from the People's Republic of China and on sodium nitrate from Chile. Dumping duties are still being assessed on fireplace mesh panels from Taiwan, on certain steel wire nails and bicycle tires and tubes from Korea, and on elemental sulphur from Mexico. There was a negative finding of dumping on canned mushrooms from the People's Republic of China.

On May 5, 1982, the United States announced the establishment of an import quota program for sugar. The United States imports sugar from many countries, most of them developing countries. The quota program is designed to support the US domestic market stabilization price for sugar by controlling the supply of sugar available to the domestic market. The United States has chosen a quota system over other means of stabilizing sugar prices because the current farm bill requires that domestic sugar prices be supported at no cost to the US government.

The United States is also a signatory to the Multifiber Arrangement (MFA), the international arrangement governing trade in textiles and apparel. The objectives of the MFA are to ensure the orderly development of exports of textiles and apparel, while minimizing disruption to the importing country markets. Under the auspices of the MFA, the United States has bilateral agreements containing specific restraint levels with 26 textile exporting developing countries. An extension of the MFA to July 1986 was completed on December 22, 1981. Although the terms were more restrictive than might have been hoped for by the developing countries, the extension does provide for an orderly expansion of textile trade, particularly with respect

to those developing countries which are smaller producers or new entrants in textile trade.

Generalized System of Preferences

The Generalized System of Preferences (GSP) is a program of temporary duty-free tariff preferences. Through the use of tariff preferences, developing countries are able to increase their exports and to diversify their economies, thereby reducing their dependence on foreign aid. The United States grants GSP duty free treatment on approximately 3,000 products imported from 140 beneficiary developing countries and territories. In the eight years that the US program has been in operation, the value of US imports receiving GSP duty free has increased from $3.0 billion on 1976 to $8.4 billion in 1982.

There has been some concern in recent years that the US GSP program has benefitted primarily the more advanced developing countries, whose products are becoming increasingly competitive in the US market and that the less advanced developing countries are not able to take full advantage of the program. In fact, in 1982, Taiwan, the Republic of Korea, Hong Kong, Brazil, Mexico, Singapore, and Israel, which are the top seven beneficiaries of the program, accounted for 74 percent of total GSP imports. To address the problem of the uneven distribution of GSP benefits and the growing competitiveness of products from the advanced developing countries, a graduation policy has been implemented. A decision to remove a product from the list of GSP eligible items for a certain country is now made after consideration of the following three factors:

-- the country's overall level of development;

-- the competitiveness of the country in the particular product; and

-- the overall economic interests of the United States, including the import sensitivity of the product.

In 1983, $95 million worth of imports from four countries --Taiwan, the Republic of Korea, Brazil, and Mexico--were removed from GSP eligibility in response to product-specific graduation requests by petitioners .

In addition to the policy of discretionary graduation, the competitive need formula, which is part of the GSP authorizing legislation, provides for the automatic removal from GSP eligibility of a product from a country whose shipments during the previous calendar year exceeded 50 percent of total US imports of that product or a specified dollar amount, which is

adjusted to take into account changes in the US Gross National Product, and which in 1982 was $53.3 million.

Statutory authority for the US GSP program expires on January 3, 1985. The Administration, however, has announced its intention to seek legislation to extend the program. A renewed GSP program would have two major objectives. First, it is important to improve the operation of the graduation policy in order to reflect the growing competitiveness of some beneficiary developing countries. This policy should be developed so that it does not undermine the predictability of the program. Secondly, the Administration wishes to obtain the passage of an extended scheme that will complement US efforts to further integrate the developing countries into the international trading systems.

International Commodity Agreements

In recent years, exports of non-fuel primary commodities have accounted for less than half of the export earnings of non-oil exporting developing countries. Nevertheless, for many of the developing countries, the level of foreign exchange earnings in any given year depends primarily upon the returns on such commodities. Severe price instability for some commodities can induce producer and consumer responses to changing market conditions which in turn can cause even greater price instability. As a result, the long term planning ability of developing country commodity producers is often disrupted. In 1976, the United Nations Conference on Trade and Development (UNCTAD) launched the Integrated Program for Commodities to consider improvements in international trade in primary commodities. The major elements of the program are the international commodity agreements and the Common Fund.

The basis of the International Natural Rubber Agreement (INRA) is a 550,000 ton authorized buffer stock, the purpose of which is to stabilize natural rubber prices without disrupting long term market trends. The agreement also seeks to ensure expanded future supplies of natural rubber at reasonable prices. The INRA entered into force definitively on April 15, 1982, when countries accounting for 80 percent of imports and exports of natural rubber had joined the International Natural Rubber Organization as definitive members. By January 1983, INRA member countries contributed about $300 million to purchase more than 260,000 tons of buffer stock rubber. Of this, the United States contributed almost $40 million. Among the developing countries most affected by the International Natural Rubber Agreement are the producing countries of Indonesia, Malaysia, Sri Lanka and Thailand.

The International Coffee Agreement (ICA) is designed to create a balance between world demand and supply of coffee to stabilize prices within a certain price range. The agreement relies on export quotas which are adjusted within points at an agreed upon price range. The major world exporters of coffee are Brazil, Colombia, El Salvador, Guatemala, Ivory Coast, Uganda and Indonesia, all participants in the International Coffee Agreement. The United States also participates in the ICA. When export quotas are in effect, the United States and other importing countries regulate entry of coffee from non-member countries and require appropriate documentation from member producing countries. A new International Coffee Agreement entered into force on October 1, 1983 and will run until September 30, 1989.

Agreement was reached in June 1981 on the Sixth International Tin Agreement (ITA). After an intensive review of the agreement, the United States decided not to join the Sixth ITA, citing its objections to certain aspects of the export control and buffer stocking provision, as well as its doubts about the financial adequacy of the agreement. In June 1982, those countries which had ratified the agreement decided to bring it into force provisionally. The period of provisional application will last for 18 months, after which time the agreement could enter into force definitely or continue provisionally.

The 1977 International Sugar Agreement (ISA) is designed to stabilize the world price of sugar within a ten cent range, with a minimum price upheld by a system whereby exporting member countries' shipments of sugar are subject to export quotas. The ISA also provides for a system of national stocks under which 2.5 million tons of sugar are set aside during periods of low prices and released when prices approach the upper end of the permissible price range. The United States is a party to the 1977 ISA. Efforts are underway to renegotiate the agreement, which expires on December 31, 1984.

A new International Cocoa Agreement entered into force provisionally in August 1981, and buffer stock operations began in September. Because of serious misgivings about the economic and financial viability of the agreement, the United States has declined to participate in it. Nevertheless, preparatory meetings to renegotiate the 1980 agreement have been scheduled by participating countries for late 1983 and early 1984.

The Common Fund

The primary purpose of the Common Fund is to facilitate loans to the international commodity organizations which were created under the auspices of UNCTAD. The commodity

organizations would pool resources with the Common Fund which would then make loans to them through its First Account. In addition to the First Account, a proposal has been made for the creation of a Second Account which would provide loans and grants for the development of projects to produce various commodities.

Agreement on the Common Fund was reached in June 1980. The United States signed the Common Fund Agreement in November 1980 but announced at that time it would not contribute to the Fund's Second Account because the Account would duplicate the activities of the multilateral development banks.

The Common Fund did not enter into force in June 1982 as scheduled because only 22 countries had ratified the Agreement by March 31st of that year. Presently, 110 countries now have signed the Articles of Agreement and 64 have ratified it. As this number still falls short of the minimum of 90 ratifiers required by the Articles of Agreement, ratifying countries must decide whether to let the agreement lapse, again extend the deadline for ratification, or put the agreement into effect among themselves.

Also, none of the international commodity organizations has yet shown an interest in associating with the Common Fund. The United States is not yet prepared to consider ratification of the Agreement until a sufficient number of suitably structured international commodity organizations are willing to associate with the Fund.

Table 1

TRADE BETWEEN DEVELOPED AND DEVELOPING COUNTRIES

	EXPORTS (FOB $ Billions)			AVERAGE ANNUAL GROWTH RATE (Percent)	
	1974	1980	1982	1974-1980	1980-1982
World Exports	773.6	1,867.3	1,702.1	15.82	-4.53
to Industrial Countries	549.8	1,276.0	1,129.5	15.06	-5.92
to Oil-Exporting Countries	35.6	125.2	144.2	24.32	7.32
to Non-Oil Developing Countries	163.1	408.0	382.3	16.51	-3.20
Industrial Country Exports	533.2	1,239.5	1,155.2	15.10	-3.46
to Industrial Countries	368.4	836.9	765.3	14.65	-4.37
to Oil-Exporting Countries	28.0	97.7	111.0	23.16	6.59
to Non-Oil Developing Countries	105.7	240.6	222.0	14.69	-3.94
Oil-Exporting Country Exports	115.0	292.0	215.2	16.80	-14.15
to Industrial Countries	87.8	213.1	144.6	15.93	-17.63
to Oil-Exporting Countries	0.5	4.3	4.4	43.14	1.16
to Non-Oil Developing Countries	23.6	68.6	61.2	19.46	-5.55
Non-Oil Developing Country Exports	120.0	316.1	309.2	17.52	-1.10
to Industrial Countries	74.5	179.9	172.6	15.83	-2.05
to Oil-Exporting Countries	5.7	18.7	24.3	21.90	13.99
to Non-Oil Developing Countries	26.6	76.6	78.1	19.28	0.97

Source: IMF, Direction of Trade

Table 2

U.S. TRADE TRENDS WITH DEVELOPING COUNTRIES
($ Billions)

Year	US Exports to non-OPEC LDCs	US Imports from non-OPEC LDCs	Balance of Trade with non-OPED LDCs	US Exports to OPEC	US Imports from OPEC	Balance of Trade with OPED
1972	11.8	12.0	-0.2	2.8	2.7	0.1
1973	17.4	15.7	1.7	3.6	4.6	- 1.0
1974	26.0	23.8	2.2	6.7	15.6	- 8.9
1975	28.5	22.2	6.3	10.8	17.1	- 6.3
1976	26.7	28.0	-1.3	11.6	27.4	-15.8
1977	28.1	34.9	-6.8	12.9	35.8	-22.9
1978	35.4	41.1	-5.7	14.8	33.3	-18.5
1979	48.1	51.1	-3.0	14.5	45.0	-30.5
1980	65.5	63.4	2.1	17.4	55.6	-38.2
1981	67.4	66.9	0.5	21.5	49.4	-27.9
1982	59.8	67.9	-8.1	22.9	31.1	- 8.2
1983 (Est)	55.7	77.9	-22.2	15.3	24.5	- 9.2

Source: US Department of Commerce, Survey of Current Business.

Chapter II. C.

EXTERNAL INDEBTEDNESS

US Policy

US policy for dealing with the international debt problem consists of five main points, forming a cohesive, mutually reinforcing program. First, and most important was effective economic adjustment in borrowing countries. Second, the IMF's role was a critical element in the overall strategy. The availability of immediate and substantial short-term financing in cases where system-wide dangers were clearly present was the third element of the strategy. Fourth, continued commercial bank lending to countries that were pursuing sound adjustment programs was essential. The final element was to promote economic recovery and to preserve and strengthen the free trading system.

Nature of the Problem

It became apparent during 1982 that the debts of many key countries had become too large. Countries found it impossible to sustain borrowing at the rapid pace of previous years and encountered difficulties in servicing the payments due on their existing debt. These circumstances put considerable strain on the public and private institutions that comprise the international financial system and required new policies from creditor and debtor countries during the period of adjustment.

The debt problems stemmed from the economic environment and policies pursued over the previous two decades: inflationary pressures that had mounted during the 1960's; concurrent shocks occurred from two sharp runups in crude oil prices; and government efforts to maintain real incomes through stimulative economic policies, and the protecting of jobs in uncompetitive industries through controls and subsidies. Eventually, the pursuit of inflationary policies led to declining investment and productivity. The problems of economic adjustment increased the longer it was postponed, culminating in large current account deficits and unprecedented external borrowing requirements. Serious balance of payments and debt servicing difficulties were faced by a number of countries, mainly in Latin America.

The combined current account deficit (including official transfers) of the non-OPEC LDCs reached $75 billion in 1981, almost four times the level of 1978. Much of this increase was a reflection of the industrial country recession in 1979-80, sharp increases in oil prices, and exceptionally high

international interest rates. Adverse external factors were compounded, however, by the consequences of inappropriate domestic policies that sought to sustain import levels at the same time that export earnings were stagnating or declining.

By the end of 1982, external indebtedness of non-OPEC LDCs had grown to slightly over $600 billion -- more than four and a half times the level of 1973. Roughly $285 billion was owed to commercial banks in the industrial countries. Following the second oil shock, debt had built up rapidly, with most of the increase reflected in new net lending by commercial banks. The pace had accelerated from about $37 billion in 1979 to $43 billion in 1980, and to $47 billion in 1981.

This pattern of borrowing by developing countries changed abruptly in 1982, when net bank lending to LDCs declined sharply to $32 billion. To a large extent the drop was a consequence of greater caution and scrutiny of foreign lending by banks. Due mainly to the limited financing available for those countries, the aggregate current account deficit of the non-OPEC LDCs fell to $63 billion in 1982.

Despite the deceleration in the accumulation of debt, existing levels of debt that were expected to decline in real terms under inflationary conditions remained high and became less manageable under conditions of world recession. A serious short-run problem existed in several key countries.

The smaller current account deficits, forced by the reduction in external lending and substantial declines in trade, were achieved by cutting imports directly or by sharply depressing economies to reduce damage. The process was politically painful. There was also an added danger that lenders might move so far in the direction of caution that the absence of financing would compound the severe adjustment and liquidity problems already faced by major borrowers. The absence of financing could have pushed otherwise sound countries into serious financing problems.

Importance of Resolving the Problem

Debt and liquidity problems in major LDC economies threatened the economic recovery worldwide through their effect on world trade and placed severe strains on the international financial system. The United States recognized it had a vital stake in preserving a sound world economy and in managing the problem to avoid a downward spiral of world trade and impairment of domestic lending capacity of the banking system of the United States and of other countries. That is, the potential impact of the debt problems concerned not only developing countries but developed countries, including the United States.

A further abrupt and large-scale contraction of LDC imports would have done major damage to the export sector of the US economy. By 1980, when US exports accounted for nearly 20 percent of total US production of goods, exports to LDCs alone were 29 percent of total goods exports. It has been estimated that every $1 billion increase in US exports 24,000 jobs.

A squeeze on earnings and capital positions of banks from losses on foreign loans would impair banks' ability to finance foreign trade and would ultimately reduce the ability to lend to domestic customers or increase the cost of that lending.

The US Government also had faced exposure through federal lending programs administered by Eximbank and the Commodity Credit Corporation. This exposure amounted to $35 billion at the end of 1982, including $24 billion of direct credits (mostly from Eximbank) and $11 billion of guarantees and insurance. Should loans extended or guaranteed under these programs sour, the lending agencies would be left with a loss.

Debt and liquidity problems could not be said to have been entirely the fault of the commercial banks. Errors in judgment were made, but excesses on the part of both borrowers and lenders became evident. Also, governments had a great deal to do with shaping the environment. For borrowers, the adjustment process would be temporarily painful. For the banks, it would require not only continued involvement, but an increase in their lending to those troubled countries which were demonstrating an adequate economic adjustment effort.

US Strategy for Resolving Problems

The US strategy for dealing with the debt problem was adopted in concert with other major countries and international institutions. Together they agreed to a strategy designed to protect the world financial system and the world economy from the threat of irreparable damage. It was recognized that the strategy would take time and require fundamental changes in governmental policies. The approach was to develop a broad strategy involving LDC governments, the industrialized countries, commercial banks, and the International Monetary Fund both to address immediate problems and to work toward the fundamental conditions required to achieve a lasting solution. There were five main points, which together formed a cohesive, mutually reinforcing program.

First and most important was effective adjustment in borrowing countries. Over one-quarter of the IMF membership had adopted IMF supported adjustment programs, including most of the major LDC debtors. While each country faced its own unique constraints, there were some common characteristics.

Adjustment typically would be a multi-year effort, involving measures to address some combination of the following problems: inappropriate exchange rates; subsidies and protectionism; distorted prices; large fiscal deficits; inflationary money growth; and interest rate controls which discourage private savings and distort investment patterns.

Second, the IMF's role was a critical element in the overall strategy. It provides not only policy advice and temporary balance of payments financing, but also ensures that use of its funds is tied to implementation of needed policy measures by borrowers. In 1983 the IMF had programs with 42 countries involving commitments totaling SDR 25 billion. In the first eight months of 1983, net disbursements of IMF resources amounted to nearly SDR 7.5 billion, which exceeded the record amount disbursed during all of 1982. As a result, the IMF's loanable resources were at a very low level. By the end of the year, the IMF's ability to commit resources to new adjustment programs would have been exhausted if additional funds were not provided.

Governments and central banks recognized that the IMF could not be the only buffer in financial emergencies. The problems of troubled borrowers could develop and crystalize before borrowers were able to design and negotiate adjustment programs with the IMF. In the case of Mexico, the initial liquidity crunch came before negotiations with the IMF had even started. It was necessary to respond with immediate and substantial short term financing in cases where systemwide dangers were clearly present. This "bridge" financing is the third element of the strategy.

The United States participated in bridging arrangements for Mexico, Brazil, Yugoslavia and Argentina. The Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve provided $2,450 million in short term financing to Mexico and $1,880 million to Brazil. These loans were fully repaid. In addition, the United States provided guarantees in connection with BIS loans to Argentina, Brazil and Yugoslavia, but there were no calls on the US guarantee. The United States continued to work closely with other major lenders to improve coordination in dealing with emergencies and to develop a monitoring system for identifying potential problems before a crisis occurs.

The fourth element in resolving debt problems was continued commercial bank lending to countries that were pursuing sound adjustment programs. The banks, particularly the largest institutions responsible for the bulk of the lending, recognized that they had a strong self interest in assuring that current problems were resolved in an orderly manner. They worked closely with the borrowers, creditor governments and the international institutions to provide the additional finance.

Banks in the United States and abroad did become more cautious in their lending policies, and some sought to limit or reduce outstanding loans to troubled borrowers. It was to be expected that the growth of bank lending would be at a much slower pace than in the past. Greater caution and prudence was desirable and would help strengthen the long run stability of the system. But, an orderly resolution of the debt problem also required a willingness by banks to "roll over" or restructure existing debts, and to continue to increase their net lending to developing countries, including the most troubled borrowers, which were implementing corrective measures to deal with their problems.

The final element was to promote economic recovery and to preserve and strengthen the free trading system. It was recognized that the debt problems could be managed if there was world economic recovery, lower interest rates and lower inflation. With higher growth in the industrial countries, there could be rising exports from the LDCs and income needed to service international debts.

Rising protectionist pressures in the United States, and elsewhere continued to pose a real threat to global recovery and to resolution of the debt problem. Export expansion by countries facing problems was crucial to their balance of payments adjustment efforts.

Progress in Applying the Strategy

The world economic recovery did get underway, led by the strong expansion in the United States. Interest rates were well below their peaks, and there was scope for further decline. The recovery was taking place with falling inflation.

The expanding US economy and accelerating growth in the industrial countries created very favorable trade prospects for the developing countries. Industrial countries as a group were projected to expand by three and a half to four percent in 1984. World trade was growing for the first time in two years. The prices of the primary LDC commodity exports were firming, and higher export earnings were contributing to a reduction in LDC current account deficits and a strengthening of their financial positions. These developments were establishing the necessary foundation for a resumption of sustainable LDC growth in 1984.

In the large majority of cases, the IMF-supported adjustment programs were on track, performance objectives were being met, and payments deficits were being reduced. One example is Mexico, which achieved a major turnaround in its external position. On the external side, estimates for a

current account surplus in 1983 ranged from $1-2 billion, compared to a current account deficit of $14 billion in 1981. The inflation rate, which peaked at an annual rate of over 100 percent in December and January, was running at an annual rate of less than 50 percent in July. The annual rate of inflation in 1984 was expected to be roughly half the annual rate of 1983. Economic activity had begun to pick up, and further improvement was likely in 1984.

The strong measures adopted by Mexico were restoring confidence among both domestic and foreign investors. The foreign liquidity position improved enough that Mexico was able to repay completely last summer the short term financing provided by the United States and other countries.

Debt Rescheduling During Fiscal Year 1983

During FY 1983 the United States participated in 13 multilateral debt reorganization negotiations. The United States adhered to its established policies in extending debt relief in these cases, as detailed below, although exceptional treatment was required in the case of Sudan.

Thirteen of Senegal's principal official creditors met in Paris on November 29, 1982, and agreed to reschedule 85 percent of debt service falling due between July 1, 1982 and June 30, 1983. The restructured debt is to be repaid over four and one half years starting September 30, 1987. The remaining 15 percent of principal and interest coming due during the consolidation period is to be repaid in accordance with the following schedule: 2.5 percent on December 31, 1983, 2.5 percent on December 31, 1984, 5 percent on December 31, 1985, and December 31, 1986. A bilateral agreement implementing the terms agreed multilaterally was signed August 11, 1983.

Representatives of the Governments of Uganda amd four creditor countries met in Paris December 1, 1982 and agreed to reschedule 90 percent of debt service coming due between July 1, 1982 and June 30, 1983. Repayment of the rescheduled debt is to take place over four and one half years starting December 31, 1987. Non-consolidated debt will be repaid in five equal and successive annual payments starting June 30, 1983. The bilateral agreement between the US Government and Uganda was signed March 31, 1983.

The US Government and nine other creditors agreed on January 11, 1983 to reschedule 85 percent of the debt service coming due from Costa Rica between July 1, 1982 and June 30, 1983 as well as the arrears outstanding at the beginning of the consolidation period will be repaid over four and one half years starting September 30, 1987. The non consolidated debt

TABLE 1

Non-Oil Developing Countries'
Current Account Financing, 1978-1982
(In billions of US dollars)

	1978	1979	1980	1981	1982
Current account deficit[2]	41.3	61.0	89.0	107.7	86.8
Use of reserves	-17.4	-12.6	-4.5	-2.1	7.1
Non-debt-creating flows, net	17.9	23.9	24.1	28.0	25.1
Official transfers	8.2	11.6	12.5	13.8	13.2
SDR allocations, valuation adjustments, and gold monetization	2.3	3.4	1.4	0.3	0.5
Direct investment flows, net	7.3	8.9	10.1	13.9	11.4
Net external borrowing[4]	40.8	49.7	69.3	81.8	54.6
Long-term borrowing, net[5]	37.2	36.5	47.2	62.7	41.0
From official sources	13.8	13.3	17.6	23.0	19.5
From private sources	23.4	23.2	29.6	39.7	21.5
Financial Institutions	19.5	21.7	28.4	35.7	18.5
Other lenders	3.9	1.5	1.2	4.0	3.7
Use of reserve-related credit facilities[6]	0.3	0.4	1.8	5.9	10.7
Use of Fund credit	--	0.2	1.2	5.6	6.3
Other short-term borrowing, net including errors and omissions	3.3	12.8	20.4	13.2	2.9
Exceptional financing*	1.2	-0.4	4.1	6.7	14.4
Payment arrears	0.4	0.8	1.1	2.4	7.1
Other short-term borrowing, net*	4.9	14.6	20.8	10.1	
Residual errors and omissions[7]	-2.8	-1.4	-4.5	-3.7	-11.5

Source: IMF World Economic Outlook, June 1983

TABLE 2

Major Debtor Countries Among the Non-Oil Developing Countries at the end of 1982 [1]

(in millions of dollars)

	Debt Outstanding[2]	Debt Service	Debt Service Ratio %[4]
Argentina	15,780	2,342	18.2
Bangladesh[3]	4,353	111	6.8
Brazil	70,713	9,903	33.4
Chile	13,965	1,033	27.2
Colombia	7,426	911	13.3
Egypt[3]	14,935	2,215	20.9
Ecuador[3]	3,912	1,101	30.8
Greece[3]	6,783	1,184	12.9
India	19,814	1,158	N/A
Israel[3]	14,900	2,119	19.8
Ivory Coast[3]	4,537	997	22.7
Korea	21,499	3,716	12.4
Malaysia[3]	7,671	720	3.6
Mexico[3]	50,412	8,964	28.2
Morocco[3]	9,030	1,394	31.3
Pakistan	9,222	539	9.6
Peru[3]	6,710	1,536	44.5
Philippines	11,992	1,029	9.9
Portugal[2]	9,458	1,574	16.1
Sudan[3]	5,094	79	5.0
Syria[3]	2,616	373	10.6
Thailand	8,523	788	8.4
Tunisia[3]	3,177	495	13.9
Turkey	15,434	1,690	15.2
Yugoslavia	16,076	899	4.1
Zaire[3]	4,040	81	N/A

Sources: IBRD, World Debt Tables (1982 Edition).

1 Medium-term and long-term external debt (including non-guaranteed debt), countries with outstanding debt of more than $2.5 billion at the end of 1980.

2 End of year.

3 Public and publicly guaranteed debt only.

4 Total debt service/exports of goods and services, for 1981 data.

Table 3

Selected Financial Data on Top LDC Debtors to the United States Government
($ millions)

	Debt Outstanding (End of FY 1982)	Gross Loan Disbursement FY 1982	FY 1982 Total Payments (Principal & Interest) to USG
Israel	8,049	1,239	799
Egypt	6,023	1,348	283
Korea	3,491	663	564
India	3,335	94	198
Turkey	3,005	561	361
Pakistan	2,752	133	116
Mexico	2,435	1,332	171
Indonesia	2,194	110	268
Brazil	2,121	143	347
China (Taiwan)	1,736	141	231
Bangladesh	972	92	45
Algeria	881	86	104
Colombia	845	37	76
Zaire	816	124	99
Philippines	712	41	98
Greece	683	56	207
Morocco	638	111	84
Yugoslavia	637	22	100
Portugal	604	16	175
Chile	562	--	85
Total	42,491	6,349	4,409

Source:

Office of Data Management, OASIA, US Treasury Dept. and Balance of Payments Division, BEA, US Dept. of Commerce from data submitted by operating agencies.

service will be repaid in three equal payments on December 31, 1983, September 30, 1984, and September 30, 1985. The rescheduled arrears will be paid in eight equal and successive semi annual payments beginning December 31, 1985. The non consolidated portion of the arrears will be repaid half on June 30, 1983, and half on June 30, 1984.

On February 3-4, 1983, representatives of the governments of Sudan and 15 creditors met in Paris and agreed to reschedule 100 percent of the debt service due between January 1, 1983 and December 31, 1983 as well as the arrears outstanding as of the start of the consolidation period. Exceptional terms were granted. Specifically, repayment is to be effected over nine and one half years starting July 1, 1989 and one half of the interest due during 1983 on the restructured debt will be capitalized and treated as other principal payments due during 1983.

Eleven official creditors met in Paris with representatives of the Togo government on April 11-12, 1983 and drew up an agreed minute rescheduling 90 percent of not previously rescheduled principal and interest due between January 1, 1983 and December 31, 1983. This rescheduled debt is to be repaid over four and one half years starting December 31, 1988. The non consolidated debt service is to be paid in four successive annual payments of 2 percent each starting September 30, 1984 except for 2 percent, which was to be paid on schedule. Also rescheduled in Paris was the debt service, not to include the moratorium interest, due during the consolidation period as a result of prior official rescheduling agreements in 1979 and 1981. Eighty percent of that debt service was to be repaid over four and one half years starting December 31, 1988, while the remaining 20 percent was to be transferred on schedule. All arrears as of December 31, 1982 were to be paid in ten equal and successive semi annual installments starting December 31, 1983.

Representatives of the Government of Zambia and twelve creditor governments agreed in Paris on May 16, 1983 to reschedule 90 percent of the debt service coming due between January 1, 1983 and December 31, 1983. The consolidated debt will be repaid over four and one half years starting December 31, 1988 and the non consolidated debt according to the following schedule: two percent as originally scheduled and in no event later than December 31, 1983 and the remainder in four equal and successive annual payments starting December 31, 1984. Arrears as of December 31, 1982 were to be paid in ten equal and successive semi annual payments starting December 31, 1983.

On May 18-19, 1983, representatives of the governments of Romania and her official creditors agreed in Paris to

reschedule 60 percent of payments of principal only due in 1983 resulting from contracts dated before January 1, 1982 (the contract cut off date in the Paris Club agreement governing 1982 debt service). The restructured debt was to be paid over a six and one half year period following a three year grace period. Thirty percent of the debt service was to be repaid on schedule with 30 days leeway while the remaining 10 percent was to be paid November 30, 1984.

Representatives of the governments of Mexico and fifteen creditor governments met in Paris on June 20-22, 1983, and agreed to reschedule debt service due from the Mexican private sector on loans from or credits guaranteed by the governments of the creditor countries but which had not been guaranteed by the Mexican Government or any Mexican public entity. Ninety percent of the payments of principal due as part of such debt service between July 1, 1983 and December 31, 1983, is to be paid by the Government of Mexico over two and one half years starting December 31, 1986 while the remaining 10 percent is to be paid on schedule. In addition, arrears of such debt service (including interest) outstanding as of June 30, 1983 are to be paid as follows: 10 percent as soon as possible and in no case later than September 30, 1983, and 90 percent in six equal and successive semi annual payments starting December 31, 1986. Also, arrears as of June 30, 1983 on such private sector debt but of short term original maturity were to be cleared as follows: 5 percent on September 30, 1983, 5 percent on June 30, 1984, 30 percent on June 30, 1985, and 60 percent on June 30, 1986.

Representatives of the governments of the Central African Republic and five creditor governments met in Paris on July 8, 1983 and agreed to reschedule 90 percent of the debt service coming due in 1983. This consolidated debt is to be repaid over four and one half years starting December 31, 1988 while the non consolidated debt service will be paid as follows: 5 percent on June 30, 1984 and 5 percent on June 30, 1986.

The Peruvian Government agreed with 20 creditor governments in Paris on July 26, 1983 on the terms for rescheduling the debt service coming due between May 1, 1983 and April 30, 1984. The 90 percent consolidated portion of such principal and interest is to be paid over four and one half years starting April 30, 1987. The remaining 10 percent non consolidated portion is to be paid 5 percent as originally scheduled, but in no case later than October 31, 1983, and 5 percent on December 31, 1984.

Thirteen participating creditor countries agreed with Ecuador on July 28, 1983 to reschedule 85 percent of the debt service scheduled from June 1, 1983 to May 31, 1984 with

payment to take place over four and one half years starting May 31, 1987. The 15 percent non consolidated debt service is to be repaid as follows: 10 percent as originally scheduled, but in no case later than November 30, 1983, and 5 percent on December 31, 1984.

Chapter II.D.

PRIVATE DIRECT INVESTMENT

US Policy

In September 1983, the President released a comprehensive statement on international investment policy. A central feature of this policy is that a freely functioning marketplace will result in the most productive and efficient allocation of investment flows. Accordingly, the United States believes that government intervention in the private-sector decision-making process should be kept to a minimum. The United States will continue to work with other countries to foster a more free and open climate for trade and investment. This includes widespread acceptance of the national treatment principle (non-discrimination between foreign owned and domestic enterprises); protection of investors' physical, financial and intellectual property; and reduction and eventual elimination of barriers which hamper investment flows. The US Government recognizes the unique contribution made by private investment to developing countries, both as a substantial supplement to other forms of resource flows, as well as a source of new technologies, marketing, management and distribution skills, and organizational structures needed to spur development.

US Investment in Developing Countries

The United States is the largest single source of private direct investment flows to developing countries, although its share has fallen slightly in recent years, mainly reflecting larger investment flows from other developed countries and new capital exporters in the Middle East. At the end of 1982, US direct investment in developing countries was $53 billion, of which over 60 percent was in the Western Hemisphere. (By comparison, US private direct investment in developed countries stood at $163 billion at year-end 1982). US investment in developing countries' petroleum sectors stood at $16 billion in 1982 compared to $12 billion in 1981. The corollary figure for manufacturing investment was over $19 billion.

During the second half of the 1970's, US private direct investment in developing countries grew at a much faster rate than in developed countries. This marked a reversal of the pattern established in the immediate postwar period. From 1950 to 1974, the rate of growth of US private direct investment in developed countries far outpaced the rate of increase in the developing world (12 percent annual average vs. 5.5 percent for LDCs); over that period the proportion of US private direct investment in developing countries fell from 50 percent to 18 percent of total US direct investment abroad.

Table 1

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

	1970	1975	1980	1981	1982
Total U.S. Direct Investment	75,480	124,050	215,578	226,359	221,343
Developed Countries	51,819	90,695	158,350	165,396	163,076
Developing Countries[1]	19,192	26,288	43,691	49,894	52,156
(as of % of total)	(25.4%)	(21.2%)	(20.3%)	(22.0%)	(23.6%)
Bermuda, Bahamas, Netherlands Antilles			9,586	6,288	-1,001
Brazil				8,247	9,013
Mexico				6,977	5,584
Panama				3,784	4,404
Hong Kong				2,729	2,984
Argentina				2,756	2,979
U.S. Banks' Claims on Foreigners		58,308	172,592	251,356	355,131
Developed Countries		23,474	54,692	79,433	119,425
Developing [1]		24,525	70,364	103,555	146,502
(as of % total)		(42.1%)	(40.8%)	(41.2%)	(41.3%)
Bermuda, Bahamas, Br. W.I.		9,151	45,300	65,828	86,331
Mexico			12,595	22,409	29,488
Brazil			10,496	16,914	23,260
Argentina			5,689	7,522	10,974
Venezuela			5,438	7,069	10,739
Panama			4,974	6,787	10,197
Korea			5,697	7,324	9,407
Hong Kong			2,247	4,126	6,668

1/ Excludes Bermuda, Bahamas, Br. West Indies and Netherlands Antilles

Sources: Survey of Current Business, August 1983
Federal Reserve Bulletin

By contrast, from 1975 through 1980, US direct investment in developed countries grew by about 10 percent per annum in nominal terms compared to an annual average rate of increase of close to 20 percent for US direct investment in developing countries. Although it is too early to discern growth trends for the 1980's, data for 1980-82 show almost no change in the US direct investment position in developing countries, with weak growth in developed countries. In 1982, the US private direct investment position worldwide dropped 2 percent from 1981. The most important reason for this decline was record borrowing by US parents from their offshore finance affiliates. In the absence of such borrowing, the position would have increased.

US private direct investment continues to provide an important resource to the developing world in a period of slowed worldwide economic activity. However, this resource has not been uniformly distributed. In 1982, almost $32 billion, or nearly 60, percent of US private direct investment in developing countries was in nine non-tax haven countries: Brazil, Mexico, Panama, Argentina, Hong Kong, Venezuela, Peru, Indonesia, and Singapore.

Most of the "success-story" developing countries are host to large amounts of U.S. direct investment, and some advanced developing countries such as Hong Kong, Singapore, and South Korea are now themselves becoming the source of direct investment funds for other developing countries. In lower-income developing countries, however, even when domestic policies are favorable to foreign investment, the lack of infrastructure, markets, inputs, and trained personnel still impede US and other investment flows. Furthermore, political -economic uncertainties or negative investor perceptions of host government attitudes towards the private sector, domestic or foreign, hinder investment flows, even in areas where governments clearly seek foreign capital and technology.

Diversification in Forms of Investment

Recent years have seen a marked shift in the forms of foreign direct investment, from wholly-owned subsidiaries to joint ventures and non-equity participation. Factors contributing to this shift include changes in the competitive environment, increased host government intervention in the investment decision-making process, and increased investor perception of risk. The increase in joint-ventures, in particular, has been inspired in part by host country government pressure, and in some cases by legal obligations to introduce domestic equity involvement in foreign-owned projects. These policies have undoubtedly resulted in less foreign investment flowing to countries imposing them.

New forms of "non-equity" participation are evolving. Some of these facilitate the transfer of technology and development of the domestic industrial base while reducing the need for US equity exposure in the venture. For example, closely-linked long-term subcontracting arrangements may now include major transfers of US managerial expertise, technology, credit and manufacturing assistance that continue over the lifetime of the production facility. Fee and royalty systems covering the sale or use of intangible property such as patents, industrial processes, trademarks and copyrights also continue to be used to carry out technology transfers. In 1982, revenues to US firms from fees and royalties from developing countries totalled $1.2 billion, a 4 percent decline compared to 1981 figure. The use of new and more flexible forms of foreign investor participation may continue to grow as countries seek to increase access to foreign technology and management capabilities. One disadvantage of this type of arrangement as compared to direct investment is that fees tend to be fixed, which causes commercial risk to be transferred to the host country.

Overall, host country government policies play a great part in determining the degree and direction of US economic participation. Many of the successful newly-industrialized countries have chosen to emphasize export-led growth, and have avoided import-substitution strategies. There is also an increasing tendency for some governments of host countries--both developed and developing--to impose performance requirements which force import substitution, export promotion and/or other orientations either through linkage with investment screening mechanisms and/or incentives. The use of incentives and performance requirements generally distorts trade and investment patterns. The United States is presently working with other nations to achieve a consensus on acceptable practices relating to incentives/disincentives and performance requirements in the GATT, OECD and in other international fora.

Current US Efforts to Facilitate Investment Flows

The United States Government provides considerable assistance to facilitate investment flows. Included in this assistance are US Government bilateral programs such as those of the Overseas Private Investment Corporation (OPIC, see Chapter IV.D), US support for multilateral private-sector-oriented institutions such as the International Finance Corporation (IFC, see Chapter IV.A), and the Bilateral Investment Treaty (BIT) Program. AID programs such as those of the Bureau for Private Enterprise, and the Trade and Development Program also facilitate private investment flows.

Bilateral Investment Treaties

Many developed countries have supplemented their bilateral political risk insurance programs by negotiating investment protection agreements with developing countries. (In some cases these two steps are included in the same agreement).

The United States, recognizing the utility of investment protection agreements for US investors, initiated during 1982 its own bilateral investment treaty (BIT) program with interested developing countries. The United States has developed a prototype BIT which includes provisions on the following key areas; treatment of investment, expropriation, transfers, and dispute settlement. The United States views the bilateral investment treaty as a mechanism for supporting the efforts of interested developing countries to attract increased US private direct investment by contributing to the creation of a more stable investment climate and reducing investor perception of risk. The United States signed its first BIT, with Egypt, in September 1982. A bilateral investment treaty also was signed with Panama in October 1982; negotiations are underway with some 15 other countries in the Caribbean Basin, Africa and the Middle East.

Multilateral Investment Insurance

A multilateral political risk insurance program is being studied by the World Bank. A broadly-based, technically sound, multilateral political risk insurance program could create the insurance capacity to cover development-oriented investment projects by complementing individual countries' political risk insurance programs. The United States supports the concept of such a program and will work with the Bank and interested countries toward its development.

UN Code of Conduct for Transnational Corporations

The United States is participating actively in the UN negotiations on a Code of Conduct on Transnational Corporations. Negotiations on the code have been underway since 1977. About two-thirds of the Code's provisions have been drafted, although some contain passages which are still under discussion. Hard issues remain, such as the development of acceptable draft texts on expropriation/compensation, jurisdiction, treatment, dispute settlement and the scope of the instrument.

In the US view, guidelines which affirm standards of good practice for both enterprises and governments can contribute to improved relations between firms and governments and may limit

the tendency for unilateral government intervention in investment matters. Through appropriate provisions on expropriation and compensation, jurisdiction, treatment, dispute settlement, standards may also be able to reduce potential conflicts between governments over investment issues, thereby fostering the liberal climate for international investment which we seek. Thus, the United States can support a Code that:

-- is voluntary;

-- does not discriminate against multinational firms in favor of purely national enterprises, nor among multinational firms on the basis of parent country;

-- is balanced, to include references to the responsibilities of governments as well as of the multinational enterprises;

-- provides that TNCs be given equitable treatment in accordance with international law;

-- applies equally to all enterprises regardless of ownership, whether private, public or mixed.

Other Multilateral Activities

The United States supports the strong private sector orientation of the International Finance Corporation (IFC) and endorses its efforts to develop new ways to encourage growth of productive private investment in developing countries. The role of the IFC complements that of the World Bank and the regional development banks which finance infrastructural projects needed to create the climate for dynamic economic growth (see Chapter IV.A.).

In negotiations for revision of the Paris Convention for the Protection of Industrial Property, and for an UNCTAD Code of Conduct on Technology Transfer, the United States works to promote internationally recognized standards for the protection for intellectual property. Conversely, we actively oppose efforts that erode such standards. In particular, the United States maintains that the Paris Convention, by its nature and aims, cannot be revised to solve all the problems of developing countries with respect to transfer of technology.

CHAPTER II.E.

ECONOMIC POLICIES OF DEVELOPING COUNTRIES

The Importance of Economic Policies of Developing Countries

The soundness of domestic economic and social policies is the dominant long-term influence on development--whether the task is to take advantage of favorable external circumstances or a successful and flexible adaptation to unfavorable international events. The economic development of nations depends largely on the sweat, ideas, and initiative of their individual citizens, and on the nature of the policies followed by the country itself. Economic assistance can never be a substitute for the country's own self-help efforts. Further, economic assistance in support of ill-conceived policies would be a poor investment indeed.

There is growing consensus, shared not only by the United States and other donor nations, but by multilateral institutions such as the World Bank (see its recent study on Sub-Sahara Africa) and by an increasing number of developing countries themselves, that in many countries the range and depth of public intervention have gone much too far. Certainly, there are clear grounds on which public economic intervention can be defended as conducive to faster growth and to equity. But too often government policies have created market imperfections instead of correcting them. Too often they resulted in smothering individual efforts instead of stimulating individual initiative and providing a favorable climate for growth. (Perhaps the most dramatic illustrations are found in agriculture, where the artificially low prices have weakened farmers' incentives and thus exacerbated food problems.) Since the second oil price crisis of 1979-80, it has become clearer that policy reform in the direction of greater reliance on individual initiative and on the market mechanism is no longer--if it ever was--merely desirable: it has become critical.

The United States, therefore, sees a need for all countries to continue to re-examine their policies in the direction of removing unnecessary or harmful state controls and regulations, of providing more breathing space for private sector activities--domestic as well as foreign--of injecting more competition into their domestic markets, of allowing greater openness toward the world economy. Correspondingly, the United States sees a need for its own economic assistance policies to be formulated with this objective in mind.

This chapter examines developing countries' policies and the uses and limits of public economic intervention, in order to provide a sharper focus for the dialogue on economic development and on the role of US assistance within it. It was noted above that the United States stresses provision of economic assistance to the lower income countries. Twenty-six of the thirty-six least developed economies are located in Sub-Saharan Africa. This region also has the poorest economic growth record and a high incidence of major economic policy problems. In recent years, however, many Sub-Saharan countries have initiated important economic policy changes. Therefore, frequent reference will be made to Sub-Saharan Africa in this chapter.

Developing-Country Policies and the Public Sector

The policy measures implemented by governments of developing countries that directly influence the pace and pattern of development fall into three broad areas that are closely interrelated yet distinct:

-- Policies concerning the goods and services that are produced directly by the public sector, and the associated pattern of direct public investment;

-- Policies affecting prices, incentives to private producers, and generally the determinants of supply and demand. In cases where these policies create an imbalance between supply and demand, one usually finds associated intervention on the marketing and distribution of goods and services; and

-- Policies concerning mobilization of resources for development, particularly financial resources, both domestic and foreign. Along with this go decisions about the allocation of these resources between the public and the private sectors.

The governments of developing countries are more or less active in each of these three areas, reflecting broad policy perspectives about the role of market forces and private enterprise in their development. There has been mounting criticism that the public sector in many developing countries has been too active and interventionist, at considerable costs in terms of efficiency, growth and, in some cases, equity.

-- First, a publicly managed economy faces much greater requirements of skilled managers and technicians in the public administration, and in terms of public institutions that can generate and analyze information and facilitate effective decisions. Thus, prices that are not determined by market forces have to be set, debated in detail and

agreed upon, and scarce investment resources and foreign currency have to be explicitly allocated with lengthy consideration of the effects of allocation decisions on both efficiency and equity. Yet, skilled managers and technicians, and effective institutions are extremely scarce in developing countries. Instead, the market is an excellent device to economize on decision-making and planned skills.

-- Second, even if the requisite information and analytical expertise, and data collection and elaboration facilities were available to determine, for example, the "fair" allocation of scarce foreign exchange, the "just" price of a product, or the "right" level of interest rates, there are immense political pressures to peg prices at too low a level, or to favor certain kinds of enterprises or certain groups of consumers.

-- Third, a publicly-managed firm need not in theory have any different personnel or cost structure than the corresponding private firm. In practice, however, it typically operates at a lower level of efficiency because of inadequate incentives, uneconomic demands on its resources and inability to avoid the impact of poor macroeconomic policies, pressures to respond to political forces, pressures for an uneconomically high workforce and dependence upon haphazard budgetary decisions.

Public Production and Investment

In the area of direct public production and investment the scope and rationale for public participation varies widely from activity to activity. For many forms of infrastructure (highways, seaports, canals, dams, etc.) the economic rationale for public sector provision is well-known and relatively straightforward. The gestation and payback periods associated with infrastructural projects are usually much longer than even a farsighted private sector wishes to contemplate. Also, these projects normally give rise to "externalities", i.e., beneficial economic effects accruing to entities external to the project; when these are large and are not recoverable by the private investors, the investors would be understandably reluctant to get directly involved. The main issues of public investment in infrastructure, therefore, have to do with cost effectiveness and pricing.

For some services such as health and education, the efficiency rationale for direct public provision is much less obvious, and considerations of interpersonal and interregional equity loom larger. In other areas, such as industry, there is

wide diversity among countries in the scope of public sector activity, and political, social, or national considerations are important determinants of the public sector's role. In agriculture, production in most countries is largely carried out privately, while the public sector often provides a variety of associated services.

Infrastructure

Direct public investment in infrastructure and public provision of the associated services is commonplace, both in developed and developing countries. In most instances the required investment is large relative to the size of the domestic private capital market, and production is subject to increasing returns to scale. The activities are, therefore, "natural monopolies" so that it makes economic sense to have only one supplier. Alternatively, distribution of the services (e.g., city streets and street lighting) is such that it would be highly impractical to charge individual users.

Not all of the above considerations point inevitably to direct public production. For instance, utilities and other natural monopolies can be operated privately, with some amount of public regulation. However, domestic private investors may be unwilling or unable to undertake such investments, and the basic services provided may be considered too vital to the national interest to be entrusted to foreign private capital.

Effective policies in this area are important because infrastructure provides economic services that enormously facilitate production, distribution and consumption. The issues of relevance here have to do with cost effectiveness in construction, maintenance and operating efficiency, including cost recovery insofar as practicable through fees and user charges. First, in both construction and maintenance there is scope for reducing costs by increased reliance on private competitive contracts. For instance, Argentina, Brazil, and Colombia have recently increasingly relied on private contractors for routine highway maintenance, and significant economies have resulted. Second, costs can often be reduced through more economical design. In many areas, standpipes and pit latrines can satisfactorily provide for water and sanitation, and are much less costly than house connections and sewer networks. Third, greater use of local materials, labor and equipment can also reduce costs, especially when suitable complementary policies are adopted.

Operational efficiency depends on policies to minimize costs and to adequately cover costs through user charges, e.g., for water, electricity, telecommunications, and transport. In

some cases, operation can be carried out privately. The Ivory Coast, for example, has contracted to a private company the maintenance and operation of its national water supply system, with very positive results. Many roads and river transport services can be provided efficiently by competitive private firms. In a variety of countries, including Congo, Guinea, Zaire, Sudan, India, Sierra Leone, and Sri Lanka the role of the private sector in providing transport services has been enhanced.

The gains in efficiency from increased reliance on the private sector naturally depend largely on the nature of government regulation. For road transport, enforcement of regulations regarding vehicle overloading and safety can contribute positively to efficiency. (Overloading is the single most important factor contributing to road deterioration.) On the other hand, a structure of fees and licensing requirements for specific trucking services and routes normally hampers competition and hinders efficiency. In Chile, deregulation along these lines has resulted in a sharp expansion in road transport services.

For services associated with ports, telecommunications facilities and electric power, one often finds serious problems of excess demand leading to congestion and service failure. While the price for the service may be adequate to cover average production cost, it may not be high enough to eliminate excess demand. Pricing reforms aimed at these problems have been carried out in Brazil, India, and Thailand in the telecommunications areas, and in Tunisia and Thailand for electric power.

There is a growing tendency for donors to finance transportation projects which focus primarily or exclusively on rehabilitation and maintenance. In many Sub-Saharan countries highways are falling into disrepair, if not disuse, from the combined effect of inadequate funding of maintenance and an inadequate organizational capacity to undertake maintenance operations effectively. Increased attention is also being given to arrangements which will assure an adequate level of funding for maintenance and increase the effective use of these funds. For example, in Guinea, Nigeria and Kenya, the government is moving towards a much greater role for the private sector in both road maintenance and construction.

Social Services and Human Development Programs

Another important area of direct public production and investment is that of social services and human development programs such as education, health, family planning and

nutrition. The most compelling rationale for public provision in this area has to do with distributional objectives, and with constraints on how these objectives are to be achieved. In principle, many of these services could be produced privately, and needy people could be given cash or vouchers as required. In practice, the prevailing approach has been direct public provision.

These services are important not only because they directly affect the well-being of individuals, but also because they represent investment in human resources that has been demonstrated to yield significant economic returns in the long run. The main policy issues here have to do with designing the services to effectively meet needs; producing the services on an efficient scale and reasonable cost; and financing the services in ways that conform with the distributional objectives of providing for the basic needs of the poor, while avoiding undue subsidies for the non-poor. There have been problems in many developing countries in their approaches to provision of education and health services. The problems concern an imbalance in favor of secondary and higher education at the expense of primary education, and of more complex health services at the expense of primary health care. These imbalances are generally associated with an urban bias. This has occurred despite evidence that private and social returns from primary education are greater than those of secondary and higher education, and that lower-cost primary health care can do far more to improve the general health of the population than the prevalent pattern of urban-located, hospital-based health services.

Also, one usually finds that basic social services, such as education and health, are provided free of charge to all users in most developing countries. An alternative approach is a more effective system of fees and user charges that aids the needy without unnecessarily subsidizing others from the very scarce resources available in a developing country. For instance, in higher education or in health services, setting fees above costs for those who can afford to pay helps to subsidize scholarships and health care for the needy. In nutrition, food subsidies can be focused on the poor (as in Sri Lanka) to a much greater extent than they often are, and can be targeted--when practicable--on those specific foods more prominent in the diets of poor people, e.g., sorghum in Bangladesh or cassava in Indonesia.

For education, the balance among various types of services should reflect current and prospective labor market requirements and employment problems. Vocational education and training is likely to be more successful if, as in Brazil, Chile and Singapore, there is coordination with potential

employers. Problems with high unit costs often stem from inappropriate technologies (e.g., high technology, curative hospitals) and from unduly high public sector wages. In countries such as Korea, Brazil, Kenya, and the Dominican Republic, correspondence courses for secondary education have been an effective means for reaching people in remote areas at reasonable costs. In Tanzania and Sri Lanka, the financial costs of providing services have been reduced by use of self-help labor.

Industry

The role of direct public production and investment in industry varies considerably from country to country. The industries more frequently affected include steel, fertilizers, textiles, chemicals, and extractive industries. The reasons alleged are generally that these industries require a large initial investment relative to the capacity of domestic capital markets, and that the limited potential market for the output fosters monopoly. These factors are particularly important in the poorer developing countries, where both domestic savings rates and per capita incomes are low. In addition, public ownership offers an alternative to foreign capital and control of vital industries, and supposedly permits the surplus generated by such enterprises to be channeled directly to other development use.

One problem, discussed later, is that the surplus generated by the enterprise may be much lower if the enterprise is public than if it is private. Further, the argument in favor of direct public investment and production in manufacturing industrial sectors, even if initially valid, does not keep its relevance indefinitely. If the country eventually acquires a comparative advantage in the sector in question, domestic market size limitations no longer apply--for the much larger export market permits domestic competition to develop, on an economically efficient basis, under appropriate public policies to that end. And, if the country does not achieve a competitiveness in that sector, continued allocation to it of scarce resources--whether public or privately owned--would of course be highly questionable.

The distinction between public and private activity in the industrial sector of developing countries is often blurred. Some government-owned parastatals are run like private businesses and have substantial autonomy, while some private businesses are so closely regulated or protected that they have relatively little room for discretion or incentive to operate efficiently. In Korea, Brazil, and Malawi public enterprises have not been insulated from market pressures, and so have made

a significant positive contribution to rapid industrial growth.

The main policy consideration here has to do with allowing adequate exposure of the industry to market forces and incentives. This is important because of the role and industry in the development process, and of the healthy effect of exposure on economic incentives to efficiency and growth. Where there is insufficient exposure of public industrial enterprises to market forces, as for example in Egypt, Ghana, Senegal, Sudan, and Tanzania, these enterprises constitute a net drain on foreign exchange; the productivity of labor can be low; the linkages with other sectors may transmit negative rather than positive impulses; and instead of generating surpluses they often require subsidies.

Industrial policy has been liberalized in the Ivory Coast, Senegal, Mauritius and Kenya. In Zimbabwe there is a specific effort to develop industrial exports. However, the deteriorated overall economic situation in almost all countries has meant that financial intermediaries and manufacturing enterprises have been in financial difficulties even when, in other respects, they are efficient organizations.

Some developing country governments are moving out of direct control of production enterprises. For example, Peru has plans to sell about 70 state-owned enterprises (SOEs); the Brazilian government has a list of 250 SOEs for sale to the private sector; in Jamaica two of eight government-owned sugar mills have been closed and five leased to private sugar producers. In Pakistan, a steel mill has been shut down and two small engineering firms returned to the private sector along with several rice and sugar mills. The government of Zaire abolished most of its agricultural parastatals in 1978 and the Somalian government has divested four SOEs.

Agriculture

In most developing countries agricultural production is carried out largely by the private sector. About 80 percent of the world's agricultural production originates on family-run farms. The main instances of public production are in export crops, where previously foreign-owned estates have been nationalized. There is a strong tendency for the efficiency of family farms to be higher than that of cooperative, collective, or state-owned operations.

The clearest appropriate role for government in agriculture involves provision of a stable economic environment and avoiding inter-sectoral biases against agriculture (e.g., over

protection of industry). This approach has played a useful role in, for example, Brazil, Korea, Malaysia, Taiwan and Malawi. Also commonplace and helpful is government investment in agricultural physical infrastructure, such as rural roads and electrification, and in agricultural research and extension. These kinds of public investments have played important roles in rapid agricultural growth in Korea, Malaysia, Brazil, Taiwan and the Ivory Coast.

There is little if any rationale for public sector participation in non-emergency marketing and distribution. Public marketing and distribution services tend to depress the return of farmers and provide a disincentive to production. In Sub-Saharan Africa, public control of food marketing and input supply is sometimes rationalized on the grounds that rural African markets function imperfectly; that private traders would therefore exploit farmers; and that indigenous traders are still few in number, so that trade in foodstuffs might once again come to be dominated by foreigners. However, many recent studies suggest that, where private traders are active, markets are reasonable competitive; trader profits are rarely excessive; and farmers are protected from exploitation by market information and the availability of alternative points of sale. Public intervention can therefore much more usefully be directed to improving market knowledge and farmers' access to sales outlets.

With respect to Sub-Saharan Africa, there is evidence that on a wide set of policy issues many governments are demonstrating considerably more awareness of policy and institutional weaknesses in the conception and implementation of their development programs. Measures have been taken to improve agricultural prices, and to improve the efficiency of input and output markets. Government expenditure programs have reflected both the general shortage of resources and the need to improve the efficiency with which public resources are used.

However, if the deterioration in economic performance which occurred in most of Sub-Saharan Africa during the 1970s is to be halted and then reversed, the new directions of policy which can be seen and detected then represent a modest beginning towards what is required. The deterioration in the global economic circumstances and prospects of African countries which has arisen since 1980, makes the need for domestic policy reform even more urgent.

Pricing Policies

While there are many aspects to the problem of improving

the incentive framework, four issues are of critical importance: first, to create more income-earning opportunities in the tradeable goods sectors (agriculture, industry and energy) as against the service sectors (particularly government employment including civil servants, teachers and the military); second, and related to the first point, to shift the internal terms of trade towards agriculture; third, to permit the structure of the domestic prices of agricultural outputs, of agricultural inputs, and of industrial goods to reflect increasingly the present and prospective structure of international prices or at a minimum to avoid extreme divergences from these prices; and fourth, to recognize the limited financial resources and administrative capacity of governments and, therefore, the need to focus these on solving a limited and very selective set of production growth and poverty alleviation problems for which market forces alone would be insufficient.

With respect to Sub-Saharan Africa, over the past two years, an encouraging start has been made by many governments in examining and modifying their policies in these areas, and in some countries a rethinking of development strategy is underway. However, the implementation of policy and institutional reform is proving to be extremely slow and difficult for administrative, technical and political reasons. Moreover the impact of reform on production, the balance of payments, and other objectives has hardly begun and has, in many cases, been undermined by falling commodity prices, adverse weather, and internal security problems.

An examination of agricultural pricing policies suggests that in some instances governments have had difficulty in ensuring that changing policies have had the intended impact on real prices and on income-earning opportunities. Major increases in nominal producer prices, even where they have been larger than increases in input prices, have frequently been less than the cost of living to the farmer (represented by the Consumer Price Index). For instance, between 1980 and 1982, Tanzania increased its producer prices for maize, paddy, wheat and cotton, yet in real terms (i.e., adjusted by the CPI) all these prices were lower in 1982 than in 1980. The price of a few agricultural commodities has been raised enough to have a significant impact on real terms (coarse grains in Niger, Upper Volta, and Malawi; paddy in Burundi, Ivory Coast, Liberia, Mali, Niger, and Nigeria; groundnuts in Malawi and Senegal; cotton in Sudan and Nigeria; palm oil in Ivory Coast; rubber in Nigeria); however, prices for many other commodities have fallen in real terms.

In summary, the picture which emerges in relation to efforts to achieve a more appropriate structure of incentives

is that of a greater willingness on the part of governments both to increase agricultural prices and to adjust exchange rates. However, these reforms have been less effective than intended in shifting the internal terms of trade in favor of agriculture and, in general, in stimulating the tradeable goods sectors. In part, this has been due to the fall in world prices for agricultural commodities which has aggravated the problem and placed a particularly heavy burden on exchange rate policy and budgetary policies. In addition, recent experience suggests that policy reform of incentive systems is more likely to be successful if pursued in the context of more comprehensively policy packages. They need to include: (1) measures which induce a quick supply response so that aggregate real incomes expand (marketing reform, improved input supply, more efficient transportation); (2) measures which restrain the growth of incomes in the service sectors (particularly the government sector); and, (3) measures which increase the flow of external financial support (particularly at times in which international commodity prices are extremely low).

Trade and Exchange Policies

Trade and exchange rate policy is at the heart of the failure to provide adequate incentives for agricultural production and for exports. The cost of earning or saving foreign exchange has a pervasive effect on the economy in modifying the internal terms of trade and, in particular, the balance between income-earning opportunities in agriculture and in industry as against incomes in the non-tradeable sectors. While fiscal measures (taxes, subsidies) and administrative measures can supplement exchange rate policy, they cannot, in practice, counter the negative and pervasive impact of inappropriate pricing of foreign exchange.

A number of countries have a various times introduced and/or maintained exchange and trade regimes in which exchange rates have adjusted to reflect changes in the value of foreign exchange; tariff structures have been moderate and reasonably uniform; and incentives to export have been inadequate. Examples include South Korea, Brazil, Thailand, Ivory Coast, Malawi, Tunisia, and Uruguay. By and large, these countries enjoyed rapid growth over the periods in question.

As a consequence of the greater willingness of governments to adjust effective exchange rates, more countries have been able to provide increased prices to their farmers. This increase occurs directly for exporters in those cases in which export market prices are reflected directly in producer prices, providing export taxes are not raised or input subsidies reduced to an excessive degree, and proving world prices for

exports or for imported inputs do not offset the exchange rate adjustment. Producer prices for foodgrains and other food output (e.g., vegetable oils and livestock) are also influenced by the depreciation of the local currency both directly through import and export price changes and also to the extent that marketing organizations are sensitive to border prices in setting procurement prices for compulsory purchases or in setting floor prices. Many countries have, in fact, significantly increased producer prices for foodstuffs.

However, while changes in exchange rates and in agricultural prices are frequently necessary conditions of policy reform, they are not sufficient. Exchange rate adjustments are ineffective in switching the internal terms of trade to agriculture unless they represent changes not only in nominal terms but also relative to other prices in the economy. For example, if consumers of marketed food supplies--overwhelmingly in African conditions, urban wage and salary earners--are fully compensated for the increase in food prices and the prices of imported goods, through increases in incomes or in the form of increased food subsidies, then little or no improvement in the relative incomes of agricultural producers will occur. Changes in nominal prices and incomes will have been eroded away in real terms by inflation. This kind of erosion has, in fact, occurred in some countries.

Several countries in Sub-Saharan Africa have, in the past few years, recognized the importance of a more active exchange rate policy. The changes which they have introduced have varied. Some governments (e.g., Kenya, Malawi, Madagascar, Mauritius, Zambia and Zimbabwe) have retained a unified rate and have adjusted it periodically whereas others (e.g., Ghana, Uganda, Sierra Leone, Sudan, Somalia) have experimented with a transitional system consisting of two or more exchange rates. For some countries exchange rate policy is restricted by membership in a currency arrangement (e.g., the CGA Franc Zone) in which case fiscal measures are the principal instrument.

The IMF's 1982 World Economic Outlook reported that real effective exchange rates for currencies of African countries have on average appreciated over the period 1973-81 by 44 percent (page 122). Although it is noted that "this figure is heavily influenced by the experience of some of the larger African countries (such as Ghana, Sudan, Uganda, Tanzania and Zaire) where relatively high rates of domestic inflation were only partially offset by exchange rate changes, the majority of African currencies," it observes, "experienced some degree of real effective appreciation." Despite a growing recognition more recently of the need to adjust exchange rates, the figures for 32 African countries show that from 1980 to the present the currencies of 12 countries, out of the 32, appreciated in

nominal effective terms, and if allowance is made for relative changes in domestic price levels, 19 of the currencies appreciated over the two years. Moreover, in the case of eight of the 13 currencies which depreciated in real effective terms over the past two years, the depreciation was significantly less than 10 percent and in five cases the depreciation still left the currency appreciated as compared with the mid-1970s.

In contrast to Africa, the IMF reports that most Asian countries experienced either stability or depreciation of their real effective exchange rates over the period. In some cases, this was the outcome principally of moderate rates of inflation (e.g., in Burma, India, Malaysia and Singapore); and in others, of flexible exchange rate policies undertaken in the face of somewhat more rapid rates of inflation (such as Bangladesh, Korea, and Sri Lanka). On average, the rates of Asian currencies depreciated in real effective terms of 25 percent from 1973 to 1981.

Trends in real effective exchange rates for currencies of the countries in the Middle East, and the Western Hemisphere have been less marked: none of these groups showed a sharp appreciation in its average real effective exchange rate. The Western Hemisphere groups are dominated by countries for which both the export and import-competing production of manufactures play important roles. In the Western Hemisphere, developments since 1979 show some similarities with the evolution of effective exchange rates for the US dollar and dollar-pegged currencies.

Policies Affecting the Prices of Labor and Capital

Policies that directly or indirectly affect the prices of labor and capital influence the pattern of production among production activities and the choice of technique within activities. For instance, policies which lower the cost of capital and increase costs of labor, encourage the choice of more capital-intensive techniques within all activities, at the expense of those activities where labor is relatively more important in production. Policies that affect the prices of capital and labor include, aside from those dealing with exchange rate and trade policies, are monetary policy, and policies such as minimum wage and social security legislation.

Production of capital goods (other than housing and construction) is fairly limited in most developing countries, particularly low income countries, because a large share of machinery and equipment for capital formation is imported. Overvalued exchange rates lower the costs of such imports. In the absence of domestic import-substituting capital-goods

industries, there is no pressure for tariffs that would raise the costs of capital goods. Accordingly, such a regime tends to subsidize the use of capital relative to labor, and thus artificially raises capital investment and lowers the employment impact of a given amount of investment. Policies that lead to interest rates which are unduly low (or negative in real terms) also encourage the choice of overly capital-intensive techniques and capital-intensive activities.

The tendency to concentrate on interest rates as a cost of capital rather than as an incentive to domestic saving, delays the development of financial instruments and instruments. The negative effects of such policies on economic growth are compounded by policies that can result in unduly high costs of labor, including minimum wage legislation, social security legislation (which effectively is a tax on employment), and wage policies in the public sector. These policies reward those who work (or have worked) in the formal, but penalize those outside the formal sector by constraining expansion of employment. The record on these policies is, at best, mixed. In some countries governments have either used minimum wage legislation sparingly, or else have not intervened in the market at all. In other countries, enforced minimum wage laws or excessive increases in public sector pay scales had the effect of distorting the structure of real wages during the 1970s.

In Hong Kong, Korea, Taiwan, and Singapore wages have been determined to a greater extent by market forces rather than by policies and institutions that push wages well above market-clearing levels. The results has been not only rapid growth in output and employment, but also steady and significant increases in real wages.

Food and Energy Prices

Among the prices frequently determined by public sector policies, those for food and energy are especially important for development. Particularly in low-income countries, food represents a major proportion both of production and consumption. In Sub-Saharan Africa, food production has lagged behind population growth in many countries, resulting in increased imports and/or greater incidence of hunger and malnutrition. Policies that tend to keep producer prices of food too low contribute to this lag.

These measures reflect a policy objective of ensuring a regular supply of food to consumers, particularly to urban consumers, at low prices. This is typically accomplished by setting producer prices at below market levels, with purchases

made by a state trading agency, and/or various measures that provide imported food at artificially low prices through subsidies and overvalued exchange rates.

Food prices are restrained by deliberate policies and by costly public marketing, transport and distribution systems. These measures reduce producer incentives. The effect is inevitably to depress production (or marketed production), and worse, to discourage adoption of new agricultural techniques. Artificially low prices to farmers may exacerbate inequities since poverty is predominantly a rural phenomenon in most developing countries (especially low-income countries) and most of the poor depend on agricultural production for their livelihood.

In India, use of guaranteed minimum procurement prices and other policies have led to adequate price incentives for farmers. These measures have contributed to India's improved agricultural performance. In Jamaica, sharply reduced levels of subsidized food imports during the 1975-78 period led to higher prices for domestically produced food, and a strong production response. In Sri Lanka, a shift in relative prices in favor of domestic food crops and against imported wheat has resulted in dramatic increases in domestic food production.

Similarly, in energy, pricing policies in both developing and developed countries ought to respond to the need to curb demand and stimulate supply. Instead, distributional and political objectives have to varying degrees inhibited the economically-required price increases, even in some oil-exporting developing countries, such as Ecuador, Egypt, Indonesia and Venezuela. The result has been much more rapid growth of energy use as a share of GNP than desirable for long term economic development. Of course, as with every economic policy issue, policies affecting energy prices have complex ramifications which require careful consideration. Simple rules can be misleading. For instance, in many countries kerosene is a close substitute for fuelwood. Allowing the price of kerosene to rise conserves on the use of that fuel, and stimulates the use of wood at a considerable cost in terms of deforestation and eventual erosion of land, a cost that is not reflected in private decisions about consumption of fuelwood. The general point is that prices have complex effects on the allocation of resources and the distribution of income, and developing country policies that affect prices need to take into account these effects much more carefully than has often been the case.

Macroeconomic Policies for Resource Mobilization

Many of the policies discussed earlier have important implications for resource mobilization. For instance, public policies with respect to human resource development affect the stock and quality of human resources. The efficiency of public production affects domestic savings and investment. And of course, pricing policies also have important effects on domestic resource mobilization.

This section deals specifically with various aspects of monetary, credit, and fiscal policies, which directly affect the capacity of the economy to mobilize domestic savings and channel them into productive domestic investment. In developing countries, these policy areas are more closely interlinked than in developed countries, because capital markets are usually underdeveloped. Consequently, the public sector deficit is mainly financed by money creation, and the capacity of the central bank to affect the money supply through security transactions is severely limited. Where money creation and credit expansion are excessive, the ensuing inflationary pressures not only negatively affect savings, but also put downward pressure on the exchange rate. If this pressure is resisted, so that the domestic currency becomes overvalued, then the capacity to earn foreign exchange diminishes.

Expenditure Policy

For a given structure of revenues and level of expenditures, the allocation of government expenditure between consumption and investment will have a direct effect on the level of aggregate savings and investment. Most developing countries have two budgets, one for "recurrent" expenditures and one for "development" expenditures. However, to arbitrarily associate the former strictly with consumption is to underestimate the true extent of public investment. Many health and education services commonly included in recurrent budgets are actually investments in human resources. Second, maintenance and repair of the existing public capital stock (e.g., roads and equipment) typically comes under recurrent expenditures, yet actually should be included under gross investment. Third, recurrent expenditures on agricultural research and extension can arguably be considered a form of investment that increases the productive capacity of the agricultural sector.

The important policy issues here have to do not only with the optimal overall balance between public consumption and public investment, but also with the efficiency and

productivity of public investment. For example, it is of little economic value to invest scarce resources in higher-education facilities if graduates will not be able to productively use the skills gained.

The setting of priorities and the programming of expenditures are receiving increasing attention in the Ivory Coast, Liberia, Madagascar, Senegal, Sudan and Togo, among others. In Malawi, despite major budgetary constraints, the government has increased expenditure on economic services in agriculture, education and transportation. In Burundi, the internal efficiency of a highly constrained level of education expenditure has been increased through such measures as the progressive abolition of expensive boarding and decreases in the frequency of stipends for university students. In Sierra Leone, the pupil/teacher ratio is being increased and in Mali, the education budget has been significantly reallocated away from subsidies for students enrolled in higher education to increased expenditure on basic education to assure wider access. Similarly, in Guinea, the growth of higher education has been restrained and resources reallocated to skilled worker training. Fertilizer subsidies have already been reduced in many countries as part of phased programs which make more sense both in terms of fiscal policy and agricultural policy. In Sudan, major projects such as a new airport and a new seaport have been eliminated from the public investment program in order to concentrate domestic and foreign resources on priority activities such as the rehabilitation of the irrigation network. In the Ivory Coast, Togo, Mali and Mauritius, major reviews of the investment program have been made.

Tax Policy

The tax burden in developing countries is low compared to that in developed countries. Thus, for 16 of the largest recipient countries of US bilateral assistance, the ratio of tax revenue to GDP averaged only about 14 percent.

Developing countries tend to collect the bulk of their tax revenue through indirect taxes, which for the most part are regressive. In 1972-76, indirect taxes accounted for about two-thirds of total tax revenue in 63 developing countries, about double the percentage accounted for by such taxes in developed countries. On the other hand, some developing countries have personal income taxes that are steeply progressive, and with relatively low threshhold levels. In addition, businesses in some developing countries are subject to high nominal rates of taxation.

For a given level of government consumption, both the level and pattern of tax revenues will affect aggregate savings. To the extent that tax revenues match or exceed public consumption expenditures, public savings will be greater. The effect on private savings depends on how tax revenues are generated; however, these effects are difficult to measure empirically. Insofar as taxes affect mainly consumption but not savings or total income, the effects on aggregate savings can be positive.

With specific regard to corporate taxation, it is difficult to determine whether high nominal tax rates depress private sector capacity to invest. This is because nominal rates do not always provide a clear indication of actual taxes paid. A major problem in this regard is again the administrative capacity of developing countries' governments as against the various devices available to business, such as transfer pricing and dual recordkeeping to avoid or evade taxes. However, should high rates of business taxation be combined with a pervasive system of price controls on products and rising costs of production, one would certainly expect to find significant disincentives to private sector investment in productive activities.

Monetary Policy

The effects of government consumption expenditures, investment expenditures and tax revenues on aggregate savings and investment also depend on the extent to which total government spending exceeds tax revenues, and how the resulting deficit is financed. To the extent that the deficit is financed by borrowing abroad, and demand can be met by imports, there is no necessary negative effect on private savings and investments. To the extent that the deficit is financed by borrowing through private financial institutions, this tends to exert upward pressure on interest rates (if they are flexible), which can stimulate private savings but retard private investment.

In many LDCs there is substantial dependence on central bank financing. Initially, the ensuing growth in the money supply can meet the needs posed by an economy which is growing and becoming increasingly monetized. Beyond that point, inflationary pressures are generated. One option for dampening these pressures is to restrict private sector credit, either by direct controls or by setting interest rates at suitably high levels. In either case the effect on private investment is negative. If inflationary pressures are not dampened, the ensuing price increase means real incomes are decreased, causing a shift in expenditure patterns towards consumption,

and away from savings and productive investment. Economic growth is thereby diminished.

Developing country governments have tended to be reluctant to let interest rates rise to reflect expected inflation and the economic scarcity of capital. The results are depressed savings and credit rationing. Credit rationing frequently favors public enterprises and thereby tends to inhibit the flow of capital to the most productive uses. Other credit policies involve the establishment of public lending institutions to channel funds, often at subsidized interest rates, to particular groups such as farmers and small-scale industries. Though well-intentioned, these functions often can be performed with greater efficiency by private or quasi-private entities, lending at rates which more adequately reflect the cost of capital.

Some Concluding Remarks

This chapter is concluded by underlining the following major propositions:

-- There are respectable economic reasons for public policy intervention in the process of economic development, but far too often these have been used wittingly or unwittingly as rationalizations for interventions which are unnecessary or excessive, leading to serious economic inefficiencies.

-- The primacy of the developing countries' policies themselves are a determinant of development success. This means that policy changes in the direction of greater reliance on market forces and a less heavy government hand can make an important contribution to the rate of economic growth and development.

-- To be more effective, development assistance should consequently support developing countries' efforts to improve their policies.

Chapter II.F.

NORTH/SOUTH DIALOGUE

US Policy

The North-South dialogue comprises the economic discussions and negotiations which occur between the industrial nations (the North) and the developing nations (the South) in multilateral fora, particularly in the United Nations system. US policy is to engage actively in this dialogue, emphasizing mutuality of interests, interdependence, and topics (e.g., trade, food and agriculture, energy and investment climate) on which substantive discussions can take place and meaningful progress can be made. In the dialogue, the United States supports cooperative efforts to strengthen the open international trade and financial system created since World War II, which is based primarily on private enterprise and market forces. The United States also supports negotiation of specific economic matters in competent specialized agencies, such as the International Monetary Fund (IMF), the General Agreement on Tariffs and Trade (GATT) and the World Bank. Finally, while the United States cooperates in the North-South dialogue, it believes that the major responsibility for development lies with the developing countries themselves, and that progress can best be achieved when sound, market-oriented domestic economic policies are adopted by all nations in a climate of individual political and economic freedom.

Background

Fundamentally, the dialogue involves an organized effort by developing nations, operating collectively in the United Nations as the Group of 77 (G-77), to negotiate with developed countries major changes in the international economic system which would give them greater benefits and advantages in support of their growth and development.

The existing international economic system, primarily based on rules and institutions created at the 1944 Bretton Woods Conference, emphasizes open, market-determined international trade and financial flows, supported by specialized economic institutions; the International Monetary Fund (IMF), the General Agreement on Tariffs and Trade (GATT) and the International Bank for Reconstruction and Development (IBRD), also known as the World Bank. Under the Bretton Woods system the world has experienced virtually unprecedented growth among both developed and developing nations since the Second World War, although there have been setbacks, and the system is not without problems.

Many developing countries, however, claim that the Bretton Woods system and its institutions are biased in favor of their Western industrial creators, do not adequately support their development requirements, and need to be drastically reformed in the light of growing economic interdependence among developed and developing nations. Specifically, they desire increased economic assistance and private financial flows, transfer of technology on favorable terms, higher and more stable prices for their commodity exports, and improved access to developed country markets for their manufactured goods and raw materials. They also seek a larger share of the decision-making power in the specialized agencies, or creation of new economic institutions in which they would play a major role. Their proposals were spelled out in detail in 1974 at the Sixth UN Special Session, when the G-77 introduced its proposal for a "New International Economic Order."

Western industrial nations (including Japan), in contrast, uphold the efficiency and benefits of the present economic system and support gradual and evolutionary adjustments to changing economic circumstances rather than revolutionary reform. At the same time, they recognize the special problems of the poorer nations and the growing importance of global interdependence.

The gap between the demands of developing countries and the ability of industrial nations to respond to those demands has resulted at times in heated controversy and confrontation. This has been compounded by the large number of nations involved: 125 developing country members of the G-77, twenty-four Western industrial nations, and twelve Socialist bloc countries. Within these groups there also are great differences. For example, the G-77 ranges from super rich OPEC oil producers through a small group of newly industrialized nations to a large group of nations living in extreme poverty. These numbers and differences often result in oversimplification of issues, group positions based on the lowest common demoninator and political posturing in North-South meetings.

Events in the North-South dialogue in 1983 again demonstrated the difficulty of efforts by nations to agree on international economic questions. At the same time, progress was made on several issues, and the ability of nations to exchange views and positions in multilateral fora is in itself a positive contribution to international understanding.

US Concerns and Objectives

The United States takes a serious and concerned attitude towards the economic problems of the developing nations. This is not only for humanitarian reasons, but because the United States has important economic, political and strategic interests in the developing world. Over one-third of US exports go to developing countries, more than to the European Common Market and Japan combined. LDCs supply many of our vital raw materials and energy requirements. US private investment in these countries exceeds an estimated $150 billion. US economic prosperity and interest in a peaceful world are increasingly interdependent with the progress and stability of developing nations, as world events have amply demonstrated.

The US record of cooperation with other nations in support of development is a good one. In addition to its major role in providing foreign assistance, the United States is the world's largest market for developing country exports. The US market absorbs over 50 percent of the manufactured exports of non-oil LDCs to the Organization for Economic Cooperation and Development (OECD) [countries], which comprises the major Western industrial nations and Japan. US private capital markets and direct private foreign investment make a major contribution to overseas development.

The United States has reiterated its support for the important role of foreign assistance in the development process, coupled with sound policies in the developing countries and self-help measures (see Chapter II. E.). US spokesmen have stated that the United States will continue to provide significant levels of official development assistance but that a strategy for growth that depends exclusively on a massive transfer of resources from developed to developing countries as called for in the NIEO is unrealistic, particularly given current economic conditions.

Nor does the United States subscribe to the view that the international economic system has not been favorable to the progress of the developing countries, or that radical systemic changes are necessary, practical or desirable. Rather, the United States is dedicated to strengthening the existing system, which is constantly evolving to meet changing international economic needs. Accordingly, in North-South discussions, the United States emphasizes mutuality of interests, interdependence and topics (e.g., trade, food and agriculture, energy and investment climate) in which substantive discussions can take place and meaningful progress can be achieved.

A particular US concern is that the powers, functions, and competence of the specialized agencies (IMF, GATT, IBRD), which have a proven record of success in promoting international growth and development, be protected from unwise interference or intrusion of the political issues so common within the United Nations system. The United States has firmly opposed proposals in the North-South dialogue which could damage these valued institutions and will continue to do so.

Positions of Other Countries in the North-South Dialogue

The North-South distinction between developed and developing countries tends to mask the significant differences within each group, and to overlook the high degree of economic interdependence which exists between developed and developing countries.

The developing countries created the "Group of 77" (G-77) (currently comprised of 125 developing countries plus the Palestine Liberation Organization) as a caucus group to represent "South" interests originally within UNCTAD and later in other UN fora where the North-South dialogue takes place. In reality, this is an extremely diverse group with widely divergent development needs and philosophies.

G-77 members range from the poorest developing countries, including the "least developed", through the so-called "middle income" and "newly industrialized" countries to the OPEC nations. The economic philosophies of nations within the G-77 vary as widely as their level of development. Some members have followed a free market approach and actively encourage foreign trade and private foreign investment, e.g., Singapore, Ivory Coast. Others rely heavily on socialist or Marxist philosophies, e.g., Cuba, Ethiopia. Most G-77 states are somewhere in between.

The OECD countries are much smaller in number (24), share similar views concerning maintenance of the existing international system, and generally do not have the extreme differences in per capita income that the G-77 has. Nevertheless, they do differ considerably in their own domestic growth philosophies and in their approaches in Third World economic development. Also, the size of their economies and global economic influence range from the very small (e.g., Denmark) to the very large (e.g., the United States).

The Scandinavian countries tend to be more sympathetic to LDC demands and are generally supportive of G-77 proposals on concessional aid. On a per capita basis they provide the highest levels of concessional assistance within the OECD

membership. On trade, the United States is generally more responsive to LDC interests, maintaining the most open market for LDC exports in the developed world. The markets of Japan and the Scandinavian countries tend to be the least open, while the European Community falls somewhere in between.

The Soviet Union and its Communist allies attend many North-South discussions but only rarely do these nations make positive contributions to the dialogue. Their often-stated position regarding North-South matters is that the problems of development are the consequences of capitalism and colonialism; therefore, they bear no responsibility for assisting in resolving them. Unfortunately, the Soviets and their allies often have a negative impact by playing on political and ideological differences to undermine the discussions.

Sixth Conference on Trade and Development (UNCTAD VI)

The most significant event in the North-South dialogue in 1983 was UNCTAD VI, held in Belgrade, Yugoslavia, June 6 to July 3. Over 130 countries participated in the Conference, which discussed most major international economic issues. UNCTAD was established by the UN General Assembly in 1964 to consider trade and economic development issues of interest to the less developed countries (LDCs). The Conference, open to all UN members, is UNCTAD's governing body and is convened every three to four years. Previous sessions have been held in Geneva, New Delhi, Santiago, Nairobi, and Manila. An executive body -- the Trade and Development Board (TDB) -- meets to oversee work of UNCTAD between sessions. A permanent secretariat under the Secretary General of UNCTAD provides studies, background materials and other support for UNCTAD conferences and meetings, and carries out programs and activities mandated by the membership.

UNCTAD is funded through the regular UN budget, and its budget for the last fiscal year was approximately $53 million.

UNCTAD VI occurred in the context of a severe global recession and acute LDC balance of payment and debt problems. Real growth of developing countries was stagnating and prices of their primary commodity exports were depressed. However, there were also indications that global recovery was starting to occur. The US economy was beginning to recover rapidly, and several other major OECD countries, particularly the Federal Republic of Germany and Britain were also beginning to recover. Commodity prices had increased 20 percent from their 1982 lows, and US imports of LDC products were rising rapidly. In addition, steps had been taken to deal with serious LDC debt crises, including emergency efforts to support Mexico, Brazil

and others, and agreement reached to increase member contributions to the IMF by $40 billion to help that institution support the balance of payment adjustment efforts of LDCs in distress.

Developed and developing countries at UNCTAD VI held sharply differing views on the global economic outlook and the measures which should be taken to deal with economic problems, however. LDCs were deeply concerned about their difficult current economic situation and worried that recovery in the developed economies would not spread promptly to themselves. Consequently, they arrived at the Conference with proposals for short term emergency economic measures which they proposed developed countries should take and longer term structural changes in the economic system along NIEO lines.

The developed countries stressed the benefits which the economic recovery beginning in the OECD would have for LDCs, the measures already being taken to deal with LDC problems, particularly in the IMF, and the need to strengthen existing institutions and mechanisms rather than to adopt unsound and destabilizing institutional changes. The importance of maintaining and expanding international trade by avoiding protectionist actions was a major element of the United States and most other developed country positions. The OECD countries also stressed the importance of LDCs adopting sound, market oriented domestic economic policies in support of their development.

Ultimately, the debate between developed and developing countries over the situation and prospects for the global economy was not resolved. At the end of the Conference, the G-77 proposed a statement on the world economy which the United States considered overly pessimistic and biased. The US delegation disassociated itself from the statement, which was attached to a subcommittee report, and several other major developed country delegations expressed strong reservations.

Despite these differences, after a month's discussions, developed and developing countries were able to agree on a series of resolutions covering the major economic issues. The United States joined the consensus on 11 of the 13 substantive resolutions adopted by the Conference. The most important of these involved:

Trade

The resolution recognized the importance of all nations avoiding protectionist trade measures. The developed countries agreed to take steps in the context of economic recovery to halt and wherever possible roll back protectionist measures.

The United States voted against the provision which would allow UNCTAD to play a role in the area of trade in services, because the resolution failed to recognize the equally important role of the GATT in services trade.

Money and Finance

Separate resolutions were adopted by consensus on external debt, international monetary issues, official development assistance, and the multilateral development institutions. The complexity of these issues prevents easy summation, but in general the resolutions reflected the continued commitment of developed countries to financially assist LDC development, agreement to continuing cooperation to strengthen the international money and finance system, and LDC acknowledgement of the key role of sound domestic economic policies in their development.

Least Developed Countries

The resolution confirmed developed country willingness to give special attention to the poorest LDCs, including priority in allocation of the most concessional forms of assistance.

Commodities

Six resolutions were adopted, reflecting UNCTAD's heavy involvement in this field. After making statements of reservation, the United States joined the consensus on five resolutions covering Common Fund, UNCTAD's integrated program in commodities, the International Trade Center, an International Agreement on Wheat, and Processing, Marketing, and Distribution of Commodities. The United States voted against a proposal to establish a group of experts to consider the establishment of a complementary financing facility for LDC export earnings shortfalls on the grounds that export earnings stabilization is an overall balance of payments issue which should be addressed in the IMF and not in UNCTAD.

Technology

Countries resolved to continue work on the problems associated with the transfer of technology to LDCs, including a voluntary Code of Conduct on Transfer of Technology.

Other Issues

These included resolutions on economic cooperation among developing countries, shipping, island and land-locked developing countries, economic relations between LDCs and the Socialist bloc, and internal administration and budget of UNCTAD and the Secretariat.

US Assessment of UNCTAD VI

UNCTAD VI represented some modest progress in the North-South dialogue. Both sides took a serious approach to the discussions and there was a minimum of political polemics. A consensus was reached on most substantive resolutions, although in many cases this was due to the desire of both sides to avoid confrontation. Given the complexity of the issues discussed and the wide variety of national views and perspectives, it would have been unrealistic to expect more than gradual progress at resolving international economic issues and problems. UNCTAD VI did result in a deepened recognition of the growing importance of economic interdependence and the need for all countries to work together to strengthen the international trade and financial systems. At the same time the Conference underscored the wide differences between developed and developing countries on the origins of global economic problems and the measures which should be adopted to foster stable, long term development among the LDCs.

Global Negotiations

In 1979, as a result of frustration with other means of achieving progress towards establishments of the NIEO, the G-77 proposed that "Global Negotiations (GNs) on International Economic Cooperation" be convened by the United Nations. The 34th UN General Assembly, in December 1979, adopted by consensus a resolution calling for the launching of Global Negotiations. The resolution provided for universal UN participation in the simultaneous negotiation of major international economic issues such as "raw materials, energy, trade, development, and money and finance." The United States joined in the consensus adopting the resolution but made it clear in its reservation statement that "the beginning of these negotiations is subject to satisfactory and mutually acceptable completion of the preparatory process." The basic controversy since the resolution was adopted has involved differing conceptions of GNs, and particularly the relationships between the central forum envisioned by the resolution and the specialized agencies, e.g., the IBRD, IMF and GATT. These relationships are not clearly defined in the resolution.

Since then, discussions have continued in the search for a mutually acceptable basis for launching GNs, but agreement has not been reached. At the Economic Summit of the seven major western industrial nations (United States, Canada, United Kingdom, Federal Republic of Germany, France, Italy and Japan), in June 1982, the heads of State of Government considered the G-77 proposals on GNs and declared the launching of global negotiations to be a "major political objective", and that

there were good prospects for their early start "provided that the independence of the specialized agencies is guaranteed." Subsequently, the United States and other summit countries supported four amendments to the G-77 text, proposed by Canada. The amendments provided the essential guarantee for the specialized agencies and assured that the conference was not based solely on the assumptions of the "New International Economic Order." In joining the consensus on the amendments, the United States made an important concession by agreeing to convene the conference without prior establishment of conference agenda and procedures. The amended text was presented in June 1982 to the G-77 in New York by the Canadian permanent representative to the UN.

Although it appeared that a majority of the G-77 was prepared to accept the Versailles Summit proposals for holding GNs, a minority within the G-77 blocked agreement. The G-77 presented two counter-amendments to the Versailles language; the resulting text once again was unacceptable on procedural grounds, and because it did not protect the role of the specialized agencies. The issue has remained deadlocked since that time.

In 1983, as UNCTAD VI took center stage in the North-South dialogue, interest in Global Negotiations declined. UNCTAD VI covered most of the issues envisioned for GNs, except for energy matters. Moreover, the difficulty of making progress in large-scale discussions on the full range of economic and development issues demonstrated at UNCTAD VI has dimmed the enthusiasm of many governments for Global Negotiations. The US view is that the Versailles proposals represent the only realistic basis for proceeding with GNs. The United States believes, however, that the economic issues can be treated more effectively in the existing agencies, i.e., the IMF, IBRD, GATT, the International Energy Agency, other specialized organizations, recognizing that greater coordination among these fora is desirable, particularly in the field of trade and finance. Nevertheless, proposals for launching Global Negotiations, or for holding a universal conference to consider money, finance and trade matters, but outside of the UNCTAD context, continue to be discussed at the UN General Assembly in New York. Meanwhile, the IMF/IBRD Development Committee has begun intensive work on the linkage between trade policy and monetary policy.

III

ECONOMIC ASSISTANCE PRIORITIES

This part describes the objectives and priorities of the United States in its bilateral economic assistance programs (III.A.) and through participation in multilateral programs and institutions (III.B.). Whether provided bilaterally or through multilateral institutions, economic assistance is grounded on three interrelated premises: the diversity of the development experience, the ensuing concentration of concessional assistance on the poorer countries, and the mutually supportive role of multilateral and bilateral assistance.

The countries officially classed as "developing" include four groups, widely different in income, wealth, economic approach, problems and prospects. There is, first, the group of OPEC capital-surplus countries. Obviously, they do not receive, nor do they need, any concessional economic assistance. Instead their need is for a stable and prosperous market for their oil exports, and a favorable international environment in which to develop their economies and invest their surplus financial assets.

Second, there is the group of "newly-industrialized countries". These nations have living standards and levels of development comparable to what some OECD countries had a short time ago. Their needs for concessional assistance are minimal, and development is best sustained by a strong international economy with an open capital market and trading system.

A third group is the "middle income countries", with a per capita income roughly between $700 and $1,500 (in 1979 dollars). These countries have made economic progress, but still suffer widespread poverty and are highly dependent on a narrow range of exports for foreign exchange. Often, these exports are commodities whose prices fluctuate considerably in international markets. These countries continue to require some foreign assistance. Particularly important are technical support and manpower training to ensure that their populations are productive and competitive. These countries also need foreign private capital and help in developing credit-worthiness on international capital markets. Of particular significance is continued maintenance of an open international trading system to encourage expanded and diversified exports. Some concessional assistance, however, will continue to be needed in selected countries to address short-term prolems of economic instability in situations where

US assistance helps augment other external financial resources, supports a significant policy reform or is in pursuit of US foreign policy objectives.

Finally, there is the large group of low income countries, with a per capita income lower than the level established as the cut-off for eligibility for International Development Association (IDA) loans on concessional terms. (See III.B.1. and IV.A.). (Within this group also fall the "least-developed countries", as defined by the United Nations.) It is in these low-income nations that the worst human, social, and economic manifestations of under-development are usually found. It is these countries, as several chapters in Part II showed, that face the most unfavorable economic prospects for the 1980s. Large segments of their populations live at the barest biological subsistence levels; mortality rates are generally high, particularly among infants; basic physical, educational, and social infrastructure is lacking; and their involvement in the international economic system is slight.

The domestic resource base of these countries is very thin and underdeveloped. They cannot in the foreseeable future rely to a significant extent on foreign direct investment to fill their need for foreign capital inflow, and they have minimal access to the international capital market. While domestic policy improvements may still yield significant economic gains (especially in agriculture, and with particular reference to some countries in Sub-Sahara Africa), these nations needed in 1983 and will continue to need substantial long-term concessional assistance. It follows inescapably, in times of limited aid resources, that the bulk of concessional aid available from bilateral or multilateral sources should be devoted to countries in this group, and not to higher-income countries.

The diversity of development problems and issues also highlights the complementarity among different aid instruments, and in particular between multilateral and bilateral assistance. As a general rule, the United States seeks to maintain the balance between these two which is appropriate to the specific circumstances, on the basis of an assessment of the comparative advantage of each - stemming from their nature or specific institutional experience. Bilateral and multilateral assistance complement each other in many important ways. Each is better suited for achieving certain objectives and the effectiveness of each partly depends on the existence and effectiveness of the other.

Multilateral institutions, especially the development banks are particularly effective in providing assistance for large-scale projects which require very large amounts of financing. Multilateral development banks also often have a

greater ability to influence LDC economic policies, because the assistance is larger and viewed as less politically motivated than bilateral aid. Some multilateral aid organizations, particularly those in the UN system, can play a useful role in responding to the needs of sensitive countries and in acting in politically delicate situations.

The bilateral program can be more effective in addressing particular kinds of development problems and constraints, such as improving agricultural institutions and technology and assisting to reduce population growth. These are areas in which the United States has a comparative advantage because of technical expertise and program experience. Bilateral assistance, of course, is also effective for supporting the development of countries that are of particular, special importance to the United States.

As a rule, the two types of assistance must complement each other in order to maximize the effectiveness of both. For example, successful transplantation of proven US agricultural extension services may require the concomitant completion of a large irrigation project financed by the multilateral banks. And conversely, the benefits from the irrigation project would be much reduced in the absence of the bilateral agricultural extension services. In addition, bilateral and multilateral donors are increasingly working together in a dialogue with LDC policy makers to promote LDC policies that will improve efficiency and create the conditions for broadly-based economic growth.

The US objectives and priorities concerning the multilateral development banks and the UN agencies are outlined in III.B.1. and III.B.2., respectively.

Chapter III.A.

BILATERAL ECONOMIC ASSISTANCE PRIORITIES

The developing countries will continue to face two major challenges over the next several years:

-- how to address short-term balance of payments and financial problems that threaten their economic and political stability;

-- how to reduce poverty, eradicate disease, improve nutrition and, in general, better satisfy the basic needs of the poor majority of their people on a self-sustaining basis so that, in the words of the Foreign Assistance Act, they may "...lead lives of decency, dignity and hope."

The broad objectives of the US bilateral assistance programs are accordingly:

-- to promote stability in friendly countries by assisting them to overcome their financial difficulties, and

-- to help developing countries create the conditions for self-sustaining growth of a kind that permits the poor to participate and to benefit from the growth process.

These two broad objectives are linked: lack of stability undermines the long-term progress, and conversely, widespread poverty and economic stagnation breed popular discontent and instability.

The United States has three main bilateral assistance instruments: the Development Assistance (DA) program, the Economic Support Fund (ESF) and the PL 480 program. Each has different strengths in the pursuit of the two objectives of stability and of progress towards self-sustaining growth. Detailed description of the specific characteristics, size, and operation of the individual programs is provided later in Part IV. The purpose of this chapter is: (a) to discuss the major emphases of the Reagan Administration that cut across particular bilateral assistance programs and sectors of concentration; (b) to assess developing country problems, and US assistance policy objectives, priorities and progress in three key development sectors, i.e., food and agriculture, energy, and human resources.

III.A.1. MAJOR CROSS-SECTORAL EMPHASES

Four key emphases cut across all programs of US bilateral economic assistance. Aid programs and projects, concentrated in sectors where the United States has special expertise -- food and agriculture, energy, human resources development (see below) -- are to be designed and implemented consistently with these four emphases. These are:

-- The use of assistance to support aid-recipient countries' own economic policies when they are deemed effective, and to promote their improvement when they are deemed ineffective for long-term economic development;

-- Promote open and competitive markets and support public policies that permit the exercise of the indigenous private sector initiative and ingenuity;

-- Help in the creation or strengthening of effective local institutions that alone can mobilize the human effort, physical and financial capital, and other resources needed for economic growth; and

-- Assist the aid-recipient countries to develop, apply, and adapt technical innovations.

(For a fuller discussion than presented in this document, see the AID Policy Papers on each of the above four emphases. Policy guidelines concerning US aid in its major sectors of concentration -- e.g., Food and Agriculture and the other sectors discussed in sections III.A.2. and following -- are also presented in separate AID Policy Papers.

The Economic Policy Dialogue with Aid-Recipient Countries

While individual AID projects can sometimes reach their intended goals even when the host government's economic policy is less than optimal, a significant developmental impact of economic assistance in general depends on the soundness of economic policies of the recipient country. It is consequently important that the US economic assistance program, to the maximum extent possible, support recipient countries' economic policies when they are deemed effective, and to promote their improvement when they are deemed defective.

The staff of US Embassies, AID Missions, and Washington-based Agencies have moved to build and strengthen a framework of constructive, realistic and effective interaction on policy issues with recipient countries' governments and with other donor countries and agencies. The activities called for by such interaction are subsumed under the term "policy dialogue".

The success of the policy dialogue depends on familiarity with the recipient country situation and on the economic validity of the arguments about desirable policies. Even when the US aid program is relatively small, a genuine dialogue may still be successful in promoting improvements in the recipient country's economic policy.

The interaction between the provision of aid and the recipient country's policy rests on the conditionality of the assistance. That is, the assistance is provided to the LDC on the basis of conditions or understandings which institute the appropriate economic policies. These conditions are determined by the recipient countries and the United States jointly after considering AID's policies, specific aid program objectives and the specific circumstances of the LDC.

Assistance programs are usually carried out through periodic disbursements (tranching). This is useful for flexible adaptation of policy understandings to possible major changes in circumstances and for periodic review of country progress.

The policy dialogue also can be conducted through indirect means. These include a range of activities, from assistance to build up the recipient country's own analytical and institutional capacity to scholarly exchanges, seminars and conferences, support for applied research on policy issues, and the like.

A correct and constructive tone is essential to the success of the dialogue. Beyond the need for knowledgeable and useful policy advice by the donor, the dialogue must be characterized by mutual respect, recognition of each other's legitimate interests and constraints, and a cooperative, non-confrontational tone.

The following guidelines are also important to the effectiveness of the dialogue:

-- The dialogue with the recipient country cannot be productive unless there is a consistent position within the US government agencies involved in the assistance package and our foreign policy interests in the particular LDC. This entails close interaction between AID, State, Treasury, USDA, and USIA both in Washington and in the field.

-- The policy dialogue must be selective. The initial identification of the specific key priorities for the policy dialogue must be done by the field, on the basis of familiarity with host country circumstances and with the strengths of the AID program in that country. A strategy

for the dialogue is then formulated, consistent with AID policy on the conduct of the dialogue, and subject to the authority of the US Ambassador.

-- There must be close coordination and consistency among the major donors -- particularly the IMF and the development banks.

-- The policy dialogue must be carried out on a sustained, long-term basis. A constructive policy dialogue requires patience, steadiness, and a gradual build up of knowledge, contacts, and relationships.

-- The policy dialogue requires a sufficient number of competent, knowledgeable, and sympathetic staff.

The dialogue on macroeconomic policies to a large extent is carried out by multilateral insitutions, owing to their larger financial resources and greater analytical capability. But US bilateral economic assistance programs must themselves have the capability to serve as an independent vehicle for dialogue on overall LDC policies. This capability is useful to support and reinforce the dialogue when it is led by the IMF or the World Bank; and it is a useful verification of the policy advice rendered through those sources.

The US has promoted greater bilateral donor coordination in the policy dialogue with a degree of success. The great diversity among bilateral aid programs and the less than complete donor consensus on how, or in some cases even whether, to use bilateral assistance for the promotion of sound economic policies by the recipient countries calls for continued efforts. Improved donor coordination on issues such as the financing of recurrent costs is needed. It is, accordingly, desirable to present other donors with a persuasive explanation of the US development perspective and to improve the functioning of existing coordination mechanisms. Recent Donor Coordination guidelines, discussed at the Development Issues Committee (DAC) of the OECD, give promise of significant advances in coordination over the next year.

The Private Sector in Economic Development

Free and competitive markets offer the best means of achieving the objective of helping LDCs meet the basic human needs of their poor majority through sustained, broadly based economic growth. Rapid economic growth typically is accompanied by reductions in absolute poverty. And, over time, allocation of resources through competitive markets is more likely to be fairer and more equitable than allocations made by LDC government.

Many LDC governments produce goods and services that could be produced more efficiently by the private sector. Or, they impose price controls and regulations that discourage private sector growth and production. These types of government involvement in the market lead to misallocation and inefficient use of resources. Also, government may appropriate capital and scarce management skills that would be better used in private production. (See Chapter II.E., for an elaboration of these points.) The result is suboptimal economic growth and inequity.

The role for the public sector that is fully compatible with a development emphasis on free markets and the private sector is providing "public goods". That is, goods and services such as law enforcement and rural roads, that private enterprise cannot profitably produce or that involve "externalities". An example of positive externalities would be the benefits that accrue to everyone in society from a vaccination program -- even those who do not receive the vaccinations. Also, government can undertake certain types of high-risk, large-scale investments with long gestation periods that typically are not undertaken by private investors. The construction of irrigation systems is an example of this type of project.

The principal goal of the emphasis on market solutions to development problems is to promote the economic security and independence of the citizens. In particular, the freedom of individuals to earn their livelihood by producing goods and services and marketing them for a fair price. Essential to this is the stimulation of indigenous private enterprise in LDCs. Private enterprise development strategies will vary from country to country. AID missions normally are expected to focus their private enterprise development activities in one or a combination of four priority sectors: agriculture, agribusiness, small- and medium-scale industry and privately operated service enterprises. However, these sectors are not exclusive. For example, Economic Support Fund activities may fund efforts in areas such as urban development, infrastructure, export or domestic industry or other areas that directly support or complement AID's private enterprise initiatives.

Constraints to private sector development also will vary from country to country. Key constraints are inappropriate government policies, an overly burdensome legal and regulatory framework, weak capital market, inadequately trained labor and management, thin capital resource flows and an inadequate flow of new technologies. Accordingly, bilateral assistance will emphasize activities that alleviate these constraints.

The United States also recognizes that the engine of economic growth is personal liberty. Throughout the world, societies which protect civil and political rights are far more likely to experience economic development than societies which do not. The extent to which people are free is directly related to the extent to which their energies can be directed to productive and development activities.

Of paramount importance is LDC creation of policy and regulatory climates conducive to growth and investment. As the previous section noted, through policy discussions AID can have a positive impact on the attitude of LDCs toward private enterprise.

Chief characteristics of a positive climate for private enterprise include:

-- Consistent market-oriented pricing policies in product, factor and financial markets;

-- A legal and regulatory framework that protects private property, rewards risk-taking, promotes competitive market structures and enforces valid commercial transactions;

-- Political and administrative stability; and

-- Reliable public servies.

Support also is considered for LDC business and trade associations. This could take the form of technical assistance to association members in such areas as general management, wholesaling, marketing and accounting.

Stimulating the flow of private technical and financial resources within and among developing countries as well as from industrialized countries can be an important way to increase employment, productivity and incomes of the poor. Accordingly, AID gives consideration to activities that facilitate or augment private sector technology transfer and resource flows.

Chief among these activities would be those that:

-- Assist businesses and other technology users to correctly assess the value of available technologies;

-- Support private research and development efforts that emphasize adaptation and creation of technologies suitable to Third World countries;

-- Spread technologies by promoting efficient subcontracting relations among small and large industrial firms; and

-- Stimulate increased collaboration between technical organizations in the United States and their LDC counterparts.

Where markets conducive to investment and growth already exist or are being encouraged, bilateral economic assistance may explore ways to fund the elimination of bottlenecks to expansion. This would be accomplished by channelling assistance primarily through intermediate institutions to augment the flow of financial resources available to local private enterprises. Aid-financed pre-feasibility studies also could be helpful.

In order to provide a better focus for the organization, implementation and coordination of the private sector initiative, AID established in 1981 the Bureau for Private Enterprise. The Bureau has been very active in 1983 in assisting other bureaus in AID and field missions with implementation of the private sector initiative and building a portfolio of projects which demonstrate imaginative ways to develop the indigenous private sector.

Development of Institutional Capacity

The development of viable institutions, informal as well as formal, private as well as public, is essential to the success of any development effort. Institutions involve organized relationships among people that define their socio-economic environment. Development institutions sustain specific development activities by incorporating in those activities the basic values and practices of the population, as well as the technology and know-how essential to organize production or raise productivity.

Effective development institutions enhance a country's ability to marshal its own human and other resources for development, help individuals gain access to the skills and the services needed to increase their productivity and income and increase the country's absorptive capacity and the effectiveness with which aid resources foster development that can be sustained after external assistance is withdrawn.

It is AID policy to help developing countries establish and strengthen public and private institutions in support of mutually agreed, priority development objectives. In undertaking institutional development, the following principles are adhered to:

-- Institutional development should be included as an aspect of all projects, and should not be seen as a special activity of its own. This does not preclude support to

entities where the prime focus is in fact institutional development.

-- Institutional development must be tailored to the needs of specific countries, sectors, and institutions. Countries and sectors with weak institutional structures, as found in much of Sub-Saharan Africa, require a different approach than in areas with a long history of effective public and private sector development.

-- Institutional development must address weaknesses in complementary institutions, since institutional deficiencies elsewhere in a given sector (e.g., extension) may well inhibit the effectiveness of particular institutional interventions (e.g., in research).

-- Institutional development must encourage institutions that are flexible and which can adapt to changing local and national needs. Private sector institutions accomplish this through well-functioning markets; public institutions require effective information-handling systems, strong analytical capacities, and close linkages to client or user groups.

-- Institutional development must provide for the active participation of clientele in the assessment of their needs, and in the design, implementation, and evaluation of field programs. This helps to ensure that aid-supported institutions will meet their own implementation goals and be relevant to local needs.

-- Institutional development must be aimed at providing people increased access to essential resources, and greater freedom to use these resources in rewarding ways.

-- Finally, private sector options for institutional development must be considered carefully. Experience has indicated that with the exception of such areas as basic public administration, major transportation infrastructure, and certain aspects of agricultural research, public health, and education, private sector options are both less costly and more responsive to their clientele, and at the same time more innovative, dynamic, and efficient than public enterprise. Thus, where there is a choice, bilateral economic assistance should encourage and support institutional development options in the private sector and should avoid activities that explicitly or implicitly preempt private sector options.

It is important to note that institution-building makes significant demands on both donor and recipient countries. The recipient must assure that the institutions, once established

with outside assistance, eventually become self-sustaining; further, that the institutions involve the broadest possible participation of all those individuals and groups essential to their success, especially the recipients of their services. For example, an agricultural extension system serving mainly a few large and wealthy farmers is not likely to have a significant impact on raising production and productivity throughout the agriculture sector. On the donor side, the shift in emphasis towards institution building requires a long-term commitment. Creating and strengthening the institutional capacity of a developing country is a long-term process. It cannot be turned on and off without major costs and inefficiencies.

Technology Development, Transfer, Adaptation and Extension

Experience has taught that, for dynamic economic growth, it is crucial that a country have the indigenous capacity both to develop and apply a continuing stream of innovations designed to increase productivity, employment and incomes, and also to evaluate and adapt technologies transferred from industrialized countries.

Developed countries, and especially the United States, generally possess the institutional and human infrastructure to generate major technological breakthroughs that are critical to increasing productivity and output in many fields. While many of these technological advances can be beneficially transferred to developing countries it is important that developing countries build an indigenous capacity with which to develop and adapt technology appropriate for their countries' specific needs and conditions.

The United States has long been involved in programs aimed at strengthening the technological capabilities of developing countries and in encouraging technology transfer and diffusion. The new emphasis in this area includes as a major new dimension the expansion of research and development in all priority sectors of aid concentration -- agriculture, energy, health and population, human resources development -- through cooperative efforts between US and developing-country scientists. These efforts have begun to be undertaken in the context of strengthening the indigenous institutional capacities in developing countries. Examples of innovative research activities include:

-- biomedical research to develop improved methods of voluntary family planning;

-- improved methods to diagnose and control diseases such as malaria, "the scourge of the tropics", and the problems

caused by the tsetse fly in Africa, which bars agriculture on vast areas of potentially productive lands;

-- research to speed development of crops that tolerate adverse soils and climatic conditions, insects, and diseases;

-- renewable energy technology systems, fuelwood production and utilization, and the transfer of innovative conventional energy technologies (e.g., coal slurry technology). This complements research on energy policy issues, including, for example, the development of methodologies for energy pricing and resource assessment structures specifically tailored to individual LDC circumstances.

Transferring, adapting, and disseminating technologies in the agricultural and agribusiness fields is accounting for a larger share of development assistance resources. The farm-systems approach to providing assistance to farmers emphasizes the integration between laboratory research, farm-level research and the public extension system linking the farmer to the laboratory.

Market mechanisms play a major role in the creation, adaptation, and dissemination of technologies. AID is strengthening its efforts in support of indigenous producers to create and adapt suitable tools and equipment. Increased collaborative arrangements between US and developing country businesses, stimulated by conferences, trade fairs and the like, frequently result in increased flows of useful technologies to developing countries.

AID has reorganized its administrative structure in order to strengthen the role and effectiveness of science and technology in the Agency's programs. The position of Senior Assistant Administrator for Science and Technology has been established, with responsiblity for leading and guiding the scientific and technical activities of the entire Agency. AID has also created a mechanism, the Sector Councils, to give technical personnel a stronger voice in the policy, program, and staffing decisions.

In addition to these internal changes, AID is strengthening its relationships with the scientific community at large so that more of this country's scientific and technical resources can be applied to development.

Several new initiatives have been taken under the authority of Title XII of the Foreign Assistance Act, to augment the role of US universities in AID's development assistance efforts. Memoranda of Understanding have been developed to formalize

relationships with universities that are willing to commit themselves to long-term relations with AID. A Joint Career Corps has been established for university staff who opt to spend one-third of their professional time working with AID and a Joint Venture mechanism to make more effective use of the resources to small US universities is being explored.

AID and the National Academy of Sciences are continuing to work together to identify the highest priority research needs for enhancing economic development. The NAS Board on Science and Technology for International Development is helping to identify innovative technologies of potential economic value for the developing nations, and to establish networks of LDC institutions to explore and improve those technologies.

III. A. 2. FOOD AND AGRICULTURE

US Policy Objectives

The policy objectives of the US food and agriculture assistance program are:

-- national self reliance in food production;

-- food security for the entire population;

-- contribution to overall broad based economic growth.

These broad objectives entail two major sub objectives, namely: (1) increased food availability; and (2) improved food consumption. This calls in most countries for increased agricultural production, with appropriate attention to food production; greater efficiency in marketing and distribution; expanded productive employment and incomes of men and women who lack purchasing power to obtain adequate food; incorporation of nutritional considerations into production, marketing, health and education policies and programs, and effective direct distribution of food from domestic or external sources to people facing severe malnutrition and temporary food shortages.

The US supports the objective of self reliance in food based on economically viable expansion of agricultural production, including for export where comparative advantage exists, and where the efficiency, equity, food consumption and nutritional implications of export expansion are also considered.

AID emphasizes four strategic, interrelated elements to accomplish the food and agricultural development objectives:

-- improve country policies to remove inefficient constraints to food production, marketing and consumption;

-- expand the role of developing country private sectors in agricultural and rural development, and the complementary role of the U.S. private sector in assisting this expansion;

-- develop human resources and institutional capabilities, especially to generate, adapt and apply improved science and technology for food and agricultural development;

-- employ all available assistance instruments in an integrated manner, including provision of PL 480 food aid in a way that contributes to the other three strategy elements as well as meeting food security and nutritional needs.

Each of these elements is intended to increase the effectiveness with which US economic assistance is employed in helping LDCs introduce innovations in agricultural production and distribution. While the mix of these elements varies according to the differing needs and problems among countries, the achievement of lasting food security requires greater attention to each of them in most developing countries.

The experience of the last 30 years has shown that carefully planned and administered economic assistance can, when combined with the fundamental efforts that a government and its people must themselves undertake, establish a dynamic, self sustaining food and agriculture system. US assistance in the form of scientific and management expertise, and food and financial aid, has made critical contributions to the creation of such systems in Brazil, South Korea and Taiwan and to emerging self-reliance in countries such as India, the Philippines and Thailand. This experience has demonstrated that conquering hunger and malnutrition also requires sustained improvements in the purchasing power of the poor majority, and that increased purchasing power for food is the most effective way to raise agricultural incentives across the board and encourage producers to adopt new, higher yielding technologies. Thus, ways of increasing agricultural production on a sustained basis have been developed and successfully adopted. This experience provides confidence that with appropriately directed and focused economic assistance the basic problems of hunger and malnutrition can be solved.

The United States will make maximum use of its technical competence in identifying and solving problems in food and agriculture. AID, other elements of the US Government, such as the Department of Agriculture, cooperating universities, and private sector organizations are prepared to make a long term commitment to help similarly committed countries make the required policy reforms and resource investments.

In pursuing this strategy, AID will encourage countries to promote participation in food and agricultural development by the large majority of rural producers and workers, men and women, through:

-- broadened access to production incentives and resources, including land and water, as well as opportunity to take advantage of education and training and other productive services;

-- increased productivity, employment and incomes; and

-- expanded involvement in making policy and program decisions that affect their productivity and well being.

The strategy also includes a special concern for effectively increasing the productivity, incomes and market participation of small producers. These producers comprise the great majority of rural economic units in most countries and are thus important for both increased food production and consumption. Furthermore, the demand for goods and services by the bulk of small farmers and their families who participate in market sales and purchases may constitute an important stimulus to off farm rural enterprise and the generation of employment opportunities for landless laborers and for families engaged primarily in subsistence agriculture.

Current Assessment of the Situation

Adequate nutrition for the poor in developing countries remains one of the major goals to be pursued in the 1980's. Improved nutrition is vital to human development, and increased agricultural production is essential to raising the incomes as well as the diets of the poor. While the task is a difficult one and necessarily long-term, there is considerable scope for accelerating food production in developing countries through yield-increasing and cost-reducing technologies, as well as acreage expansion.

Experience over the last three decades also shows that dynamic agricultural growth is in most countries a necessary, though not sufficient, condition for broadly based overall economic growth that permits the conquest of hunger and sustained improvement in per capita living standards. The United States is continuing to help developing countries achieve these goals.

While the major responsibility for mobilizing resources for agricultural growth lies with the developing countries themselves, external resources for agricultural development provide important inputs which can assist the developing countries in meeting their food needs. Bilateral financial support for agriculture (excluding food aid) continued to be a significant component of assistance, averaging 12 percent of OECD countries' Official Development Assistance (ODA) to this sector during 1979-81. Data for 1982, although incomplete, indicate this emphasis on agriculture continues. According to the World Bank, flows of ODA and other official assistance for agriculture increased two and a half times in real terms between 1973 and 1980, with the share of agriculture and rural development in the lending of the multilateral institutions rising to nearly 30 percent.

Recent World Bank reports and budget estimates on US bilateral assistance indicate that within this sector substantial funds continue to support the expansion of

infrastructure for agricultural production. For example, irrigation and drainage projects accounted for 27.8 percent of the World Bank agricultural sector lending in FY 1983, up slightly from 27 percent in FY 1982. US bilateral support programmed for infrastructure was 27.2 percent of projected agriculture, rural development and nutrition assistance in FY 1983, up substantially from 22.2 percent in FY 1982. Other yield increasing and cost reducing measures are being identified in agricultural research efforts and extended through improved service delivery mechanisms, particularly extension and credit systems. Training and institutional development are important complementary emphases.

Agricultural success generates domestic demand for industrial products, supplies inexpensive food to industrial workers and raw materials for agro-processing, earns foreign exchange to finance imports of capital and intermediate goods for industry, and encourages labor intensive industries in small towns and villages. When the fact that the majority of poor people live in rural areas is also taken into account, the importance of a continued focus on agricultural growth and rural development is confirmed.

In its 1982 World Development Report, the World Bank identified the strong association between agricultural advance and overall economic growth as a key feature in recent development experience, noting that this association is particularly evident in the dynamic progress achieved by many middle-income countries in recent years. This appraisal is particularly relevant for the low-income contries which are still predominantly agriculturally based and where slow agricultural progress is and will remain a major cause of sluggish overall economic growth. The US agrees with the basic optimism of the Bank in the 1982 Report about the prospects for more rapid agricultural development. It concluded: "Given reasonable incentives, farmers will innovate, save, and invest in agriculture; science based agricultural research can promote new opportunities for growth; further gains can be had from past investment in institutions and infrastructure; and the increased attention to the rural poor, as exemplified by an array of new programs for small farmers in the 1970s, is already paying off." For the future, the US believes the challenges in this effort will focus on improving the effectiveness of management of agricultural development, and achieving further increases in yields for those crops which are basic to low-income diets.

The World Situation

Through the late 1970s and early 1980s, food production and consumption per person had been increasing even if only

marginally in most parts of the developing world, except for parts of Asia and particularly Sub-Saharan Africa, where per capita food production actually declined. 1982-83 performance produced a mixed picture. Globally, food production continued to grow marginally faster than population in 1982-83. The absolute gains in food production were fairly well distributed across regions of the world. Even in the developing country regions, absolute gains were registered in all regions except South Asia which showed a decline because of drought induced rice and coarse grain losses in India. But in per capita terms, the period 1982-83 actually marked a decline for the developing countries as a group as nearly all developing regions failed to show improvement over last year. Over 36 million people were added to the population last year in the developing countries, outrunning the productive capacity of those countries' agricultural sectors. Even taking imports into account, 1982-83 per capita cereal consumption in developing countries failed to show improvement over 1981-82.

World food supplies as of mid-1983 were at record large levels in absolute terms, with the gains fairly well distributed across regions. Reasons for these large levels include high yields for key crops in major producing countries during 1982-83, and dampened demand for agricultural products during the past year. There were serious setbacks in south African corn, Australian wheat, and Indian rice crops, as well as a fourth consecutive poor harvest in the USSR. At the same time global cereal production improved 3.4 percent over 1981-82, helped by record wheat yields and a 2.2 percent gain in coarse grain output. Nevertheless, cereal production barely kept pace with world population growth in 1982-83 and fell short of the per capita record of 1978-79.

The outlook for 1983-84 world food supplies overall is favorable. However, adequate world supplies will not translate into greater food availability in the financially strapped low income countries. There will continue to be a moderate to severe need for food aid to supplement domestic production and commercial imports in most low-income developing countries in 1983-84. Despite expected growth in cereal output of 5.6 percent for low income countries as a group, inexorable growth in population and declining financial health will swallow up nearly all of these gains. Just to maintain consumption at 1979-82 average levels, cereal food aid needs for low income countries are forecast at 12.4 million tons for 1983-84.

Food production in 1984-85 may increase marginally in low income countries, particularly if regions such as southern Africa and Andean South America rebound from current drought depressed output levels. Marginal production gains, and expected improved financial conditions for the low-income countries as the economies in developed countries recover from

recession, will not, however, erase the serious lack of adequate caloric content in the diets of the poor in many low-income countries.

Regional Assessment

Africa: Sub-Saharan Africa currently faces a food emergency. Some 19 countries with a combined population of nearly 180 million had adverse food production conditions in 1982. An estimated 9 million people are suffering from malnutrition and some are starving. In southern Africa, the worst drought of the century severely reduced agricultural production. In addition to poor crops, livestock losses will be substantial. All southern African countries except Malawi suffered corn production declines and most will need food aid. South Africa, the region's dominant corn producer and usually the world's third largest exporter, will virtually cease exports and is expected to import about 2.5 million tons of coarse grains in 1983-84.

Sub-Saharan Africa is the only region in the world characterized by declining per capita food production, caused by some of the world's highest population growth rates combined with stagnating agricultural output. Food production grew about 1.9 percent per year during the last decade, and only about 0.8 percent in 1982, while population in the last ten years increased by nearly 3 percent annually. In addition, increased requirements for food imports in recent years, combined with the soaring cost of imported oil, have pushed several important countries close to bankruptcy.

In the countries of the Sahel, agricultural production stagnated or declined in 1982. Localized drought and insect damage lowered output of grains in most of the region.

Agricultural production in North Africa in 1982 increased by 5 percent from 1981, and was 28 percent above the 1969-71 average. The main reason for the large gain was the return to more normal production in Morocco after the severe drought in 1981. All of the other countries showed increases of 2 to 3 percent. Per capita agricultural output also rose in Morocco, but there were no significant per capita gains in other countries. Wheat output in the region was sharply higher, largely due to the excellent crop in Morocco, which matched the 1976 record.

Middle East: Agricultural production in the Middle East increased by just under 3 percent in 1982. The index of per capita production, however, did not change. Wheat output increased slightly because of record production in Turkey and higher output in Iran. Wheat output in Jordan was a disaster, and Israel's crop was considerably below average.

Asia: In Southeast Asia, agricultural output rose during the past decade nearly 60 percent, more than in any other region in the world. The growth of Southeast Asian agriculture in the past 10 years was more than double that of South Asia and more than triple that of East Asia. Despite this history (6 percent average annual growth from 1977 to 1981), the 1982 output was up only 2 percent. Strong gains were made in Burma, Malaysia and Vietnam, supplementing marginal increases in Indonesia and the Philippines, countries whose output contributes substantially to the regional total. Thailand's 1982 agricultural output remained the same as the 1981 record harvest. Agricultural growth during 1983 is likely to be 2 to 4 percent, with gains expected in the region's output of rice, coarse grains, and vegetable oil.

In South Asia, a poor 1982 monsoon damaged fall harvests and led to either a decline or smaller than expected gain in total agricultural production in each country. Declines were most severe in India, Sri Lanka, and Nepal. Farm output was least affected in Pakistan, where major crops are heavily protected by irrigation.

In East Asia, agricultural production in the region showed no striking changes from 1981. Korea managed to get normal harvests despite a severe drought. Rice production grew slightly in all the producing countries. The outlook for grain production in 1983 is one of little change given average weather conditions and present policies.

Latin America: Latin American agricultural production in 1982 was down about 1.3 percent from 1981 and nearly 4.7 percent below trend. The drop was due to bad weather in Mexico and Brazil. Mexican output was down 5 percent from 1981, nearly 9 percent below trend, while Brazil's production dropped 3 percent, 7 percent below trend. Despite the overall drop, Latin American wheat production was nearly 45 percent above 1981 and 40 percent above trend, principally due to a shift from coarse grains to wheat in Argentina. Corn production fell 14 percent from 1981 and nearly 18 percent below trend, due to the shift in Argentina and a bad crop in Mexico. Assuming normal weather, preliminary estimates indicate that 1983 agricultural output will rise, but it will probably not get back to the trend level.

In Central America, estimates for 1982 suggest that agricultural output increased slightly from 1981, except in El Salvador and, perhaps, Nicaragua. However, the slight increases noted between 1980 and 1983 have not been sufficient to sustain annual population increases.

In the Andean Region, agricultural production faces mixed prospects in 1983-84. Unusually heavy rains and severe drought

associated with a shift in the "El Nino" ocean current caused flood damage during the 1982 harvesting season in parts of Ecuador, Peru and Bolivia, and delayed planting in 1983.

In the Caribbean Region, although total agricultural output was up in most countries in 1982, agriculture there remains at the mercy of world prices because of its reliance on a few traditional crops, with the 1983-84 outlook mixed.

International Activity

The United States is actively involved in international efforts directed towards provision of food aid and agriculture development assistance through multilateral agencies including the international financial institutions such as the World Bank. Major initiatives have included support for the adoption of food strategies in developing countries, a concept emerging from consultations organized by the World Food Council in 1979 (see Chapter IV.B.1.). The United States has been a strong supporter of broadening the concept of world food security to acknowledge the problems of unequal access of the people within developing countries to food supplies, the importance of self-reliance by which is meant the ability to produce sufficient food for the population or earn the foreign exchange necessary to purchase food on the international market. Developing countries are also beginning, with the assistance of the United States, to recognize the impact and importance of their own policies for the improvement of agriculture production.

Progress with US Bilateral Assistance Toward Meeting Objectives.

The development assistance program of AID continues to emphasize agriculture, with 54 percent of total development assistance for support of agricultural activities in FY 1983 and 53 percent estimated for FY 1984.

In order to increase food production sufficiently to make an impact on hunger and malnutrition, a substantial increase in investment in the agricultural sector of developing countries must take place, coupled with required policy and institutional reforms. In FY 1982, US bilateral development assistance allocated for food and agriculture amounted to over $780 million. Economic Suport Funds (ESF) in that period accounted for an additional $340.7 million. In FY 1983, estimated AID development assistance slated for food and agriculture was $785.5 million, and projected Economic Support Funds identified for food and agriculture amounted to $441.7 million. The FY 1983 figures represent more than a 9 percent increase over FY 1982 amounts.

US bilateral agricultural assistance programs have continued to aim at increasing food production, productive rural employment, and agricultural productivity. Examples of such assistance programs which the United States supports through the Agency for International Development are:

-- The Small Farming Systems Research Project in Burundi. This project addresses one of the most basic of Burundi's--one of the poorest countries in the world-- agricultural problems: the relatively low productivity of the small farmer. Envisioned as the first in a series of interrelated projects on applied agricultural research, extension and production, the project will improve the effectiveness of food crop research by strengthening operational linkages between research and extension by involving farmers in the research process. The project will establish a Farming Systems Research and Extension Department which will carry out work at the commune (village) level which will work, together with farmers, to identify problems and potential innovations for resolving them. The project's approach is expected to lead to a greater emphasis on developing and testing new crop varieties and production methods under conditions more closely reflecting those of the average small farmer. Successful solutions will be widely disseminated by the extension service.

-- The Indonesia Secondary Food Crops Development Project. This project--which integrates concerns for food production, consumption and nutrition objectives--will raise agricultural productivity, improve market efficiency and diversify consumption. The project assists the Government of Indonesia to increase production and improve the marketing systems of corn, cassava, soybeans, peanuts, mungbeans and sweet potatoes. The project experiments with and tests new cropping systems, demonstrates the superiority of improved cropping systems over the traditional systems, and develops the market for secondary crops. Increased marketing efficiency will be achieved as a result of reduction in post-harvest losses and extreme farm/retail price spreads as well as improved quality of product. The project will concentrate on three sites representing various agronomic conditions under which secondary crops are grown in Indonesia. Project attention focuses on local-level problems and opportunities, but also addresses regional and national policy issues relating to domestic and foreign demand for secondary crops. Some 150,00 poor farmers who cultivate 350,000 hectares will be direct beneficiaries. As production increases and marketing systems improve, there will be a spin-off in the form of additional employment as agriculturally based enterprises develop. The project integrates concerns for food production, consumption and nutrition objectives

through identifying beneficiaries and formulating production and marketing interventions that provide maximum nutritional impact on the targetted groups.

-- The CARDI (Caribbean Agricultural Research and Development Institute) Farming Systems Research and Development Project for the Eastern Caribbean. This project addresses the principal agronomic and organizational constraints to increased agricultural production in the Eastern Caribbean through the development and implementation of an effective and sustainable farming systems research program responsive to the agricultural needs of Eastern Caribbean countries. The project, as part of a regional agricultural development strategy encompassing marketing, extension, input distribution and policy dialogue, will produce outputs in three comprehensive and mutually reinforcing areas: technology generation--development of economically viable farm level technological improvements; technology transfer--development of methods to systematically transfer improvements to extension agents, private enterprises and farmers; and institution building---by further developing and strengthening CARDI's Farming Systems Research Programs and strengthening administrative and support systems. By the end of the project, it is expected that extension organizations will be conducting mass technology transfer campaigns to disseminate the technological improvements.

-- In Tunisia, an AID multi-year program of PL 480 Title I commodity deliveries over three years, assists the Government of Tunisia to expand the scope of development policies aimed at increasing agricultural production and employment. The Government of Tunisia has made signficant institutional reforms in the structure and operation of its Ministry of Agriculture. The focus of the program is to extend a profitable technological package based on imported nitrogen fertilizer until a domestic source becomes productive. Each dollar spent for nitrogen imports is expected to produce wheat and other food grains with an import substitution value of between $3 and $4. Small and medium scale farmers are the principal target group. This innovative use of food aid for development has led to an active, open and candid dialogue between AID and the Tunisian Goverment on agricultural policies to promote investments, policy changes and institutional reforms that will bring smaller farmers into the mainstream of the economy.

AID's sustained support of the national research institutes in the developing countries as well as the international agricultural research centers helps to combat the problem of insufficient food supplies and inadequate diets in developing countries. Although it is difficult to compare accurately the

performance of the new high yielding varieties with the traditional varieties, a sample of documented studies has shown that high yielding rice technology typically yielded 40% more than the traditional varieties. For wheat the average increase has been closer to 100%. In 20 Latin American countries irrigated rice yields have increased by more than 50% since the introduction of new varieties developed by international agricultural research centers, while yields of upland rice in the same regions are increasing rapidly through use of new varieties. Even a modest increase in yield over a wide area represents a very large quantity of additional grain. In 1978 it was estimated that the new varieties had added $3 billion to $4 billion per year to the value of production, illustrating the favorable cost benefit characteristics of agricultural research that are now generally recognized.

These examples illustrate a few of the activities in agriculture, rural development and nutrition which AID currently supports.

Prospects for the Near Term

AID's forecast of food and agriculture assistance (including Development Assistance and the Sahel Development Fund) indicates a slight increase from $785 million in FY 1983 to $795 million in FY 1984. The amount of ESF projected for international food and agriculture assistance in FY 1983 was $441 million, with $386 million proposed for FY 1984. AID's FY 1984 budget strikes a reasonable balance between the need to limit the growth of federal spending on the one hand and the need to provide a level of assistance adequate to meet our foreign policy objectives and help alleviate hunger and malnutrition on the other.

Agriculture is the highest priority sector in the lending programs of multilateral institutions. This is reflected in the fact that the multilateral institutions continued on the average to increase allocations for agriculture during 1982-83 compared to 1981.

In its FY 1983, as in years past, World Bank lending in support of agriculture and rural development absorbed the largest share of commitments, $3.7 billion (25.5 percent of total), compared with $3.1 billion in FY 1982 (24 percent of total). Project activities supported by this lending include programs in area development, agricultural credit, forestry, research and extension, irrigation and drainage, agroindustry, and perennial crops. In FY 1983, the International Development Association (IDA), the part of the Bank Group providing loans on concessional terms to the poorest developing countries, financed $1,312 million in agriculture and rural development

projects, compared with $898 million for this same sector in FY 1982, or an increase of 46 percent. In 1982, the International Finance Corporation (IFC) approved investments in agribusiness of $80.7 million (14 percent of total investments) for projects with an estimated total investment cost of $391.8 million.

Regional development banks continued to play an active role in agriculture sector lending. In 1982, Inter-American Development Bank (IDB) loans in support of agriculture and fisheries claimed a 15.1 percent share of total lending of $2.7 billion, up from $2.5 billion on 1981. Major IDB assistance for transportation, energy and social infrastructure also provided important support to agriculture and rural development. In 1982, the Asian Development Bank (ADB) continued to accord high priority in lending and technical assistance activities to agriculture, which includes irrigation and rural development, fisheries, livestock, forestry, agricultural support services, and industrial crops and agro-industry (including fertilizer production). During that year, $621.3 million in loans was provided to this sector, compared with $542 million in 1981. In terms of overall lending by the ADB, support provided to the agriculture and agro-industry sector amounted to 35.9 percent of total loans during 1982, compared with 32.3 percent in 1981. The agriculture sector continued to be the primary beneficiary of African Development Bank Group (AfDB) lending in 1982, with its share of lending at $211.6 million (27.6 percent), compared with $181.6 million (28.6 percent) in 1981. This continued emphasis on agriculture reflects the AfDB's policy of promoting agriculture and rural development in order to assist countries to ensure self reliance in food production. Cumulative lending in this sector increased from $816 million by 1981 to $1.02 billion by 1982, a nominal rise of 25.9 percent.

The International Fund for Agricultural Development (IFAD) continued to focus its attention on the smaller farmer and improvement of the conditions of the rural poor. In 1982, the main focus of projects approved for loan financing continued to be the production of food crops. (The Fund and its activities in 1982 are described in section IV. B. 2.)

Overall, the prospects for sustained levels of agricultural assistance and lending in 1984 and subsequent near-term periods appear reasonably good as major donors and lenders have recognized the importance of agricultural growth to overall economic development progress in the least developed countries. Still, sustaining or increasing financial support to agriculture clearly is dependent on progress in international economic recovery, and progress along this front in 1984 is expected to be moderate at best.

Chapter III.A.3. ENERGY

US Policy

The United States seeks to encourage developing countries to expand production of their indigenous energy resources on an economic basis, use their known resources efficiently and to assist these countries in overcoming energy-based constraints to their development.

Private sector investment, internal as well as external, must be the primary means of expanding energy producing facilities in the developing countries. This requires that the developing countries establish conditions through national policies which promote foreign and internal investments. Bilateral and multilateral assistance from the United States in this area is intended to complement and stimulate private sector investment through such steps as joint project planning, cofinancing, multilateral insurance and the establishment of both the human and physical infrastructure required to underwrite energy production and use.

US technical assistance in energy, now assuming a more important role in many developing countries, can be enhanced and expanded to accelerate the energy transition in larger numbers of LDCs. Pre-eminent US technical expertise in many fields, if effectively tapped, can be valuable in strengthening energy institutions, training personnel and testing new technologies. US know-how in energy planning and assessment techniques and policy formulation can assist countries which possess limited energy planning capabilities and experience and lack the data base required for sound decision-making in this field.

Global Status and Outlook

Development depends upon the availability of energy at affordable prices to meet industrial and household needs. Energy is essential to the process of modernization, especially to the increase of productivity. Sharp price hikes in petroleum constitute a serious impediment to economic growth particularly where expansion of production is dependent upon petroleum-based transportation, irrigation systems and chemical fertilizers. National development functions are impeded by increased costs of energy and for some forms of energy, such as fuelwood, its diminishing availability. Not only has development stagnated in a number of low-income countries, but in some instances economic problems caused by energy costs threaten political stability at national and regional levels. However, it is also recognized that energy is only one among many needs which compete for LDC development capital and

allocation must be made to the most economically efficient uses.

As the developing countries industrialize and urbanize, they will be making a large number of capital investment decisions for housing, transport, and industrialization. These decisions should factor in energy implications to avoid distortions in capital investments. The World Bank projects that the developing countries will consume a relatively greater share of world energy resources, over the next fifteen years, rising from 1345 million tons of oil equivalent (toe) in 1980 to 2600 million toe in 1995.

International oil prices were reduced by about 15% (from $34 to $29 a barrel) in March of 1983. But since oil is traded in dollars, the price of imported oil has not declined for many countries as a result of appreciation of the dollar against other countries' currencies. The price and the reliance on oil imports are forcing many developing countries to seek permanent adjustments through conservation and adaptation to alternative energy sources. The oil-importing developing countries are particularly hard-pressed. According to the World Bank more than two-thirds of the 94 oil-importing developing countries depend on imports for more than three-fourths of their commercial energy requirements. These imports take up about 20 percent of total export earnings or more than three times the total of all economic assistance to these countries.

Many developing countries face a second energy challenge - finding alternatives to heavy dependence upon traditional fuels such as fuelwood and human and animal waste. Over two billion people depend upon these energy resources, which in many poor countries comprise 85 to 90 percent of total energy requirements. Increasing pressure upon fuelwood for energy has contributed to deforestations, devegetation, declining water tables, soil erosion and silting, desertification and flooding. This process, driven by population pressures, is continuing. One estimate is that annual loss of forest is running 25 to 30 million acres per year - equivalent to an area the size of California. Burning dung and vegetation as a substitute for firewood and charcoal deprives the soil of fertilizer and reduces productivity.

The dual challenges -- the need to reduce import dependence and the necessity of slowing or reversing the deterioration of the natural resource base -- have impelled LDCs to place a new emphasis upon formulating energy policies and implementing new energy programs. These governments, with intensified assistance from bilateral and multilateral donors, are actively reviewing energy pricing and production policies, reassessing their energy resources, and investing, as well as encouraging investment, in energy projects and technologies for the

future. Both donor support and direct private investment are needed for energy development and improvements in the efficiency of present plant and equipment.

Agency for International Development

AID's energy programs respond to two major energy problems of developing countries: inadequate supplies of traditional energy sources (especially fuelwood) and heavy dependence on imported oil. These programs therefore are sensitive to the interdependence of rural and urban energy needs, and of the traditional and modern sectors of developing economies, especially as they affect AID's rural development emphasis. AID programs use technical assistance and selected capital assistance to encourage expanded availability of energy through favorable policy development, technology transfer, development and strengthening of capable institutions, and facilitating private investment. AID is integrating its energy assistance activities with other sectors to achieve long-term AID goals in food production, job creation, and the environment.

AID energy programs focus on four basic areas:

-- energy analysis, planning, and policy development;

-- training and institutional development;

-- energy technology systems development, including research, demonstration, and field testing of new supply systems, especially those using renewable resources; and

-- increasing energy supplies, especially fuelwood, and improving the efficiency of energy use.

AID is continuing its major central bureau support activities. These include training (in energy planning, alternative energy, and conventional supplies), supply systems (bio-mass, small hydropower), and small scale technologies. In addition, AID initiated an energy planning project which will include increased attention to improved energy efficiency in both the modern and traditional sectors.

The programs of the regional bureaus continue to help strengthen institutions and assist in the transition to a broader mix of energy sources. Regional programs are emphasizing energy planning and more attention to fuelwood. In addition, these programs are intensively helping countries to assess results of field testing of renewable energy systems, especially in support of rural development.

AID's energy programs in FY 1983 totaled $258 million, of which $72 million was in development assistance and $186 million in the Economic Support Fund. Although the figures are dominated by a few large projects for power generation, the majority of the projects finance technical assistance for planning, training, and testing.

Over the period 1979-1984, AID has committed or planned $501 million of Development Assistance and $571 million of Economic Support Funds for energy assistance in 35 countries. These figures are indicative of many new activities for fuelwood, renewables and fossil fuels and reflect the increased importance of energy in AID's program in the past few years. The figures also show year to year fluctuations in commitments for power generation, transmission and distribution.

Department of Energy (DOE)

While most of DOE's international activities to help facilitate development of new energy technologies have been with industrial countries, the Department recognizes the importance of working with LDCs in cooperation with AID and the Trade and Development program. Thus, DOE has cooperated with:

-- Mexico in solar and fossil fuel research as well as nuclear power technology;

-- Saudi Arabia on the world's largest photovoltaic power system and other types of solar technology applications;

-- Venezuela in research and development, with emphasis upon the extraction and processing of heavy oil, as well as cooperating in coal preparation and combustion;

-- Gabon in a program of demonstrating solar photovoltaic power systems, which includes training and evaluation of the technical, social and economic aspects of the systems;

-- Korea in the solar, coal, conservation and nuclear fields;

-- Israel in a joint research program to develop and test specifically compounded glass to serve as photovoltaic concentrators;

-- In cooperation with AID, DOE is also assisting India in expanding its technical capacity to explore alternative energy resources in the areas of coal technology and gasification of biomass feedstock; and

-- working with the ASEAN Group in the areas of coal-technology training and the improvement of energy efficiency in buildings.

Trade and Development Program (TDP)

The energy sector is a major focus for TDP attention, accounting for 37 percent of FY 1983 TDP projects and 44 percent of FY 1982 projects. TDP facilitates the transfer of US energy technology through grant-financing of project planning services largely in middle income, non-AID and AID-graduated countries. TDP services include prefeasibility and feasibility studies, technology workshops, and technology orientation visits to the United States. These and other programs acquaint decision makers and planners in developing countries with US expertise in unconventional and conventional energy technology as well as in new developments in the US energy sector.

In promoting the transfer of US technical goods and services, TDP assists development efforts and increases prospects for the sale of US products and technological services in energy and other key development sectors. Reducing the dependence of developing countries on imported petroleum through more efficient use of domestic energy sources and identification of less costly alternative fuels for electric power and industrial uses is a main focus of TDP programs.

TDP draws mainly on the capabilities of US private firms, but also uses USG agencies, in such areas as utilization of coal, oil shale extraction, coal gasification, combustion engineering, hydropower, and high voltage transmission. Through the benefits of these efforts, TDP has been able to assist a number of countries in meeting rapidly growing energy demand at lower cost and with a reduced burden on limited foreign exchange.

In Brazil, TDP currently is assisting in a three phase program to identify projects and establish technical specifications in medium BTU coal gasification, convert oil fired utilities to fluidized bed coal combustion, and apply solar energy to crop drying and industrial process heat. TDP is assisting the Electricity Generation Authority of Thailand to design a number of large coal-fired plants and associated transmission lines for the Bangkok power grid. In the Philippines, TDP has financed several feasibility studies for the processing and transportation of coal. In China, a TDP grant has been let to a US firm to do a feasibility study for a major hydropower project. TDP is also helping Malawi with a hydroelectric study.

Overseas Private Investment Corporation (OPIC)

OPIC inaugurated a program in 1977 utilizing its political risk insurance and all-risk loan guaranty authorities to

promote increased exploration for and production of hydrocarbon resources by the US private sector in the developing nations. These activities are being expanded in response to growing interest on the part of US private investors. To date, OPIC has issued 30 political risk insurance contracts on primary petroleum projects, nine of them awarded in FY 1983. The Corporation has more than 95 registrations from more than 49 companies in about 37 countries. OPIC with other institutions has devoted considerable effort to the development of geothermal power projects in Asia and is continuing efforts to develop geothermal, solar and other energy forms on a commercial basis in developing countries.

Export-Import Bank

The Export-Import Bank provides financing assistance for US exports of heavy capital equipment and large-scale installations which are normally financed for a term of more than five years. The Bank's long-term financing takes the form of a direct credit (or guarantee of private credit) to a public or private overseas buyer.

Energy-related authorizations consisted of 23 direct loans in FY 1982 totalling $1,972 million and seven direct loans in FY 1983 totalling $132 million, which supported the following types of projects:

Project Type	$ millions	percent
Nuclear Power	4	.2
Conventional and other power	1,515	72.9
Petroleum and gas-related	585	27.8
TOTAL	2,104	100.0

The conventional power category was dominated by three transactions: a hydroelectric power project in Argentina totalling $550 million, a Colombian coal project for $488 million, and a thermal power project in Taiwan consisting of $201 million. In the petroleum and gas-related area the largest project was an oil refinery expansion project in Indonesia totalling $293 million.

Peace Corps

The Peace Corps energy program focuses on the development of projects which aim to conserve fuels used primarily for domestic and agricultural functions. Efforts to date have

concentrated on the following technologies: simple solar systems, wood-conserving stoves, mechanical power devices, biogas digesters, hydraulic rams, small water pumping wind systems, improved charcoal production techniques, microhydro, and food preservation.

The goal of the Peace Corps' energy program is to assist host countries in identifying needs and implementing alternative renewable energy programs at the community level. The trained Peace Corps volunteer, therefore, functions as a community facilitator who assists villages in seeking appropriate solutions to energy problems which are responsive to community needs and foster community self-reliance.

Joint AID/Peace Corps Forestry Initiative

A joint AID/Peace Corps Forest Resources Management Initiative was established in September 1980. The Peace Corps component included initial funding of $1.2 million for the period through FY 1983 with an additional $280,000 for FY 1984. The initiative was developed to build upon the complementary strengths of the two agencies in an effort to deliver village-level forestry assistance.

Three multi-country programming workshops and four technical multi-country in-service training workshops for Peace Corps volunteers and their local level counterparts have been completed under this effort. Additional new or expanded forestry programs have been developed in eight pilot countries. AID provides technical and programming assistance as well as material support services, and the Peace Corps recruits, places and trains volunteers as well as local counterparts.

Multilateral Institutions

Multilateral Development Banks

The World Bank and the regional development banks focus considerable efforts on assisting energy development in developing countries. Almost 25 percent of multilateral development bank (MDB) lending is currently directed to the critical energy/power sector. In addition to providing project financing for energy projects, the MDBs also provide project-related technical assistance and energy sector policy advice and serve as financial catalysts and institution builders. There has been a significant growth in recent years in MDB and private co-financing activities. However, the United States has opposed several projects which did not meet the objective

of catalizing financial investment from other sources as mandated by the Bank's charter.

In FY 1978, World Bank Executive Directors agreed to expand assistance for energy development. Subsequently, lending by the Bank for all kinds of energy development -- including lending for oil, gas, coal, power, and energy-related industrial projects -- has increased rapidly. Energy lending as a percentage of total World Bank lending commitments rose from 14.8 percent in FY 1976-78 to about 26 percent in 1982-83. The World Bank loans for the period 1979-83 totalled $12.9 billion including about $3 billion in 1983 alone.

Lending for electric power forms the largest part of the World Bank's energy program, accounting for roughly 70 percent of FY 1979-83 energy lending. However, lending commitments for oil and gas development have shown the greatest increase. During the period 1979-83, the World Bank provided assistance for 60 projects totalling $2.7 billion. Although the majority of funding ($2 billion) was directed to oil and gas development, 23 of the projects financed exploration promotion.

The World Bank's energy program also includes lending for coal exploration and development, for fuelwood projects, for alcohol programs in countries where biomass feedstocks are available at low cost, for refinery conversions, and for energy conservation. In building up a program in support of renewable energy development, the Bank has stressed the incorporation of biomass technologies, solar energy, and small hydropower components in its projects, sometimes on a demonstration or pilot basis, so as to acquire operating experience with the economically most promising technologies and applications.

Regional MDBs continue to increase their emphasis on the energy sector. The Inter-American Development Bank (IDB) has financed $6 billion through 1982, which represents 26.5 percent of the Bank's total loan portfolio. In 1982 lending to the energy sector totaled $800 million dollars. Electricity generation, including hydropower and distribution are the major sectors; the gas subsector claimed almost 10 percent; the remaining amounts went to oil exploration, development of alternative energy resources and rural energy distribution. The IDB is now concentrating its financial assistance to the energy sector in three fundamental areas: production of more energy, diversification of energy supplies, and promotion of adequate conservation of available energy sources.

Over the period 1967-82, the Asian Development Bank (ADB) has approved $3 billion in energy sector loans. This represented roughly 25 percent of all ADB loans for that period. The breakdown was about 58 percent for the development

of energy resources and 42 percent for improved utilization of energy supplies. Energy lending totaled $513 million in 1982 representing 30 percent of total Bank lending. The thrust of energy sector lending has been on indigenous resources exploitation, with hydropower receiving the largest share, followed by natural gas, lignite, and geothermal. The Bank's policy on petroleum has been to concentrate lending on downstream activities such as refining and marketing rather than exploration. ADB published a study of energy needs in the region, the availability of energy resources and potential for new supplies, opportunities for demand management, and capabilities of energy institutions in member countries.

The major lending of the African Development Fund (AFDF) for the energy sector for FY 1983 were two loans totaling $22.6 million for fuelwood production in Ethiopia and Benin.

International Organizations

The United Nations and its specialized agencies are intensifying their activities in energy placing emphasis upon education and training, selected research, and technical assistance. Allocations for energy in the 1979-81 period, excluding the World Bank and International Development Association, exceeded $100 million. The Division of Natural Resources and Energy makes experts available to assist in the formulation of national energy plans and policies and in strengthening LDC energy institutions. The UN Development Program (UNDP) extends technical aid for projects which range from petroleum exploration to research on coal liquification to help in advancing regional cooperation in energy. UNDP through the World Bank is financing energy assessments in 60 selected LDCs. The Food and Agricultural Organization (FAO) has done pioneering work in wood and charcoal, forestry management methodology, and biomass production. The United States also provides $14.5 million to the International Atomic Energy Agency (IAEA) through international accounts.

Prospects for the Near Term

The current outlook is that dollar crude oil prices should remain relatively stable over the next few years. Nonetheless, the magnitudes of current oil imports represent major demands on foreign exchange earnings in many countries. Over the short-term, significant substitution for oil in commercial uses is doubtful. Some countries have no alternative but to control and restrict oil imports, promote energy conservation, and make further adjustments in fragile and stagnant economies.

The crisis in traditional fuels (fuelwood and charcoal) is receiving greater attention from governments of developed and developing countries. Despite this growing concern, supply deficits in most countries will become greater in the next few years as a result of expanding populations and lack of adequate new supplies. As national resources continue to be stretched thin, the central issue will be whether developing country governments are willing to reallocate resources to cope with the problem.

III.A.4. HUMAN RESOURCES DEVELOPMENT

This chapter outlines US policy, the current world situation and US progress in addressing the related problems of rapid population growth, inadequate health and nutrition, illiteracy and employment skills within developing countries.

Population

US Policy Objectives for Population

The objective of US population assistance is twofold: (1) to enhance the freedom of individuals in LDCs to choose voluntarily the number and spacing of their children; and (2) to encourage population growth consistent with the growth of economic progress and productivity.

The underlying principles of US assistance for family planning are voluntarism and informed choice. The United States does not support programs in which there is any element of coercion of individuals to practice family planning or to accept any particular method of contraception. Nor is any US government funding provided for abortion-related activities. The implementation of US assistance is guided by legislative requirements as well as US policies. Specifically, the United States:

-- supports programs to make safe, effective, and affordable family planning services readily available;

-- gives particular attention to development programs likely to support the demand for and effective use of voluntary family planning services (such as improved education for women), agricultural innovations which lessen the need for child labor, improved maternal and child health;

-- funds biomedical, operational, and social science research to improve: the efficacy of the voluntary family planning service delivery systems, the capacity of LDCs institutions to analyse demographic data for their policy implications, and understanding of the interrelationships between the success of family planning programs and progress in other development sectors.

The World Situation for Population

After World War II, most developing countries experienced

unprecedented rates of population growth. While birth rates in developing countries have begun to fall, this has been offset by the more rapid decline in death rates. The global population growth rate reached a peak at over 2 percent in the mid-1960's, but the subsequent decline in the rate of growth has been stalled since 1975 at 1.7 to 1.8 percent. Annually, the size of the world's population continues to grow, and most of this growth occurs in the developing world. The mid-year 1982-83 increment is estimated to have exceeded 82 million people; the previous year's increment was 81.6 million. Since 1950 the world's population has grown from 2.5 billion to 4.7 billion. In the next 20 years, the world's population is projected to grow by almost 2 billion, and 90 percent of that growth is expected to occur in developing countries.

Although only one of the many challenges confronting less developed countries (LDCs), continued high rates of population growth compound the already serious and costly problems faced by LDC public and private sectors. Population growth rates such as those currently experienced in LDCs result in a large youthful population and hence high dependency ratios. Major portions of national budgets are tied up in providing basic services (health, education, etc.) to this growing dependent population. In low income countries especially, this also often means that far less of the scarce food, health, education, training resources can be devoted to each child than the minimum required to make that individual a healthy and efficient producer in the next generation.

The demographic situation is serious but not without hope. Birthrates appear to have declined significantly in several countries of East Asia and to a lesser extent in South Asia, Latin America and Micronesia. In fact, of all major LDC regions, only Africa and the Middle East still register traditionally high birth rates, in excess of 45 per 1,000 population. Population and family planning program assistance are generally considered to have been both cost effective and highly successful, and in fact fertility reductions have been particularly dramatic in LDCs with strong family planning programs.

However, access to information and services remains a major problem. In developing countries outside of China no more than 30 percent of married couples of reproductive age currently have access to basic family planning information and services.

There are strong indications of a widespread desire to limit pregnancies; the World Fertility Survey, conducted in 42 developing countries by the International Statistical Institute, found that in most developing countries, more than half of the women of reproductive age want no more children, but typically two-thirds are not using any modern means to prevent it.

Progress for Population in US Bilateral Assistance Toward Meeting US Objectives

In the last several years, demand for population assistance has grown dramatically for several reasons. First, it is a simple demographic fact that each year there are increasing numbers of couples reaching their child bearing years and requiring family planning services. Second, governments in LDCs have become increasingly concerned about the linkages between rapid population growth and overall economic development. As a result, some 39 LDCs, comprising 78 percent of the total LDC population, have adopted policies and programs designed explicitly to reduce high fertility levels. Of the 39 LDCs, 23 countries have adopted specific targets and timetables for these reductions. Third, as the links between numerous closely-spaced births and infant and maternal mortality have become better understood, individuals in developing countries themselves have begun to demand family planning services in order to space births and to limit completed family size.

Successful family planning programs tend to occur in countries where there is strong commitment by the host government, an infrastructure with the capacity to deliver services thoughout the country, and social and cultural acceptance of the concept of family planning. The largest share of US population assistance is directed to countries where these three conditions exist. In countries, notably but not exclusively in Africa where awareness of the impact of rapid population growth on sustained economic development and of the need and demand for modern family planning services is more recent, the United States works closely with host governments and private organizations to help them analyze and strengthen their policies and programs. Where infrastructures are weak or inadequate, the United States supports activities to strengthen local service delivery institutions and also works with the private sector.

In recent years, AID has increased the proportion of population funds allocated to bilateral family planning programs, reflecting not only the Agency's commitment to integrate family planning programs into overall country development assistance programs, but also the growing interest of LDC governments to collaborate with the United States in developing strong national family planning programs.

The largest proportion (approximately 80 percent) of US population assistance goes into providing family planning services, including training for physicians, paramedicals and field workers; commodities; and techncial assistance in the design and improvement of distribution systems. In 1983, this amounted to nearly $170 million.

Working with governments and the private sector over the past 16 years, AID has developed and refined effective ways of strengthening infrastructures through which family planning services can be provided. In an attempt to increase services and encourage cost recovery, AID is placing greater emphasis on the involvement of the private sector in family planning. For example, AID supports community based distribution, involving paraprofessional and volunteer personnel and social marketing or commercial retail sales programs, under which family planning supplies is delivered through the commercial sector.

Recognizing that effective family planning programs must offer assistance which is consistent with the cultural environment and the religious and philosophical convictions of the host population, AID has taken steps to increase delivery of the once-neglected Natural Family Planning (NFP). First expressly mandated by statute in 1980, AID support targeted to NFP has grown from $400,000 in FY 1980 to $3.5 million in FY 1983 and a targeted $5 million in FY 1984. NFP is potentially an important method for expanding the number of individuals informed about and practicing family planning.

Accompanying the provision of services is dissemination of information and education on family planning and population, both for individual users and also for government policy makers. In 1983, AID spent $12 million on information and education for users of family planning and for policy makers in developing countries. The United States has given increased support for research on the safety and effectiveness of contraceptives and the development of promising new contraceptive methods. In 1983, AID contributed about $9 million for this purpose.

In recognition of the interrelationship between population growth and progress in other development sectors, AID is working to coordinate development activities and the availability of family planning services so that they are mutually reinforcing. This means building upon what is known about the links between social and economic progress and fertility decline, by working for improvements in the socioeconomic setting within which voluntary family planning services are provided, (an important development goal in its own right) in order to support parents' growing interest in smaller families as well as their ability to utilize modern, effective contraceptives to achieve their desired family size.

International Assistance for Population Programs

Worldwide population expenditures equal about $1 billion annually. Developing countries themselves provide well over half of this total. The United States is the major donor of international population assistance (providing 40-45 percent of

the total) along with Japan, Norway, Sweden, West Germany, Canada, the Netherlands, and the United Kingdom. In 1983 the US population assistance budget was $211 million. On the multilateral level, the UN Fund for Population Activities (UNFPA) and the World Bank are the principal donors. In FY 1983 pledges to UNFPA amounted to $129 million, of which the US pledged $33.7 million or 26.2 percent of the total for the year. (See IV.B.1. for further discussions.)

Prospects for the Near Term for Population

AID will continue to accord priority in population assistance to the expansion of voluntary family planning services and related activities. This includes emphasis on expansion of the role of the private sector in the delivery of services either through private voluntary organizations or through the use of commercial channels for the distribution of family planning supplies. In an effort to extend the choice of methods available and enhance the program it supports, AID is increasing support for NFP methods and for biomedical research on promising new family planning methods and the improvement of existing methods. The policy environment within which family planning programs operate is important to their success, and AID will continue to provide technical assistance and financial support for LDC policy analysis and policy development so that the provision of family planning services and other development policies and programs are mutually reinforcing. The US program in FY 1984 will build on past experience but will emphasize increased utilization of the private sector in service delivery, expanded method choice, policy development and strengthening of local institutions.

Health

US Policy Objectives for Health

The United State's major health policy objective is to help developing countries become self-sufficient in providing broad access to cost-effective health measures designed to lower rates of death and disability, principally among women and children and the working population. The US health assistance program, effected largely through the Agency for International Development, will promote these objectives by concentrating on:

-- Increasing the effectiveness of health programs through improved program design, management and implementation;

-- Promoting sound approaches to financing health measures, drawing on private as well as public resources; and

-- Increasing biomedical research and field-testing aimed at the development of cost-effective new health technologies appropriate to LDC settings.

The United States, through AID, will place special emphasis on encouraging LDCs to modify policies that inhibit financially-viable, cost-effective health programs. US supported health programs stress private sector involvement in service provision and financing of the recurrent costs of health care. The United States will continue to support a broad range of indigenous institutions, including village-level health committees, women's groups, universities and research institutions, private sector health practitioners and enterprises, and voluntary organizations.

The World Situation for Health

Improvements in health are fundamental to the achievement of overall development objectives. There is strong evidence that disease and poor nutrition contribute to lower productivity and higher absenteeism among workers. There is equally strong evidence that children who are sick and undernourished do not learn as effectively as do healthy children. Severe undernutrition in infancy causes irreversible brain damage, and thus impairs learning capacity, both in school and later in the workplace.

Overall health levels in LDCs remain poor:

-- Life expectancy in developing countries is only 54 years, compared with 76 years in the United states. In Africa, life expectancy is less than 50 years in several countries.

-- 15 million infants and children die each year, most of them in the developing world. The major causes of death and illness, diarrheal and respiratory illnesses and immunizable diseases, complicated by low birthweight and undernutrition, are virtually forgotten in the Western world.

-- Fewer than one-quarter of the two billion people in the developing world (excluding China) have adequate sanitation and access to convenient, safe water.

-- At least 200 million people in the developing world suffer from malaria; more than 200 million are infected with schistosomiasis.

-- Access to health care is abysmally low, and most physicians and nurses dwell in urban areas, while rural populations remain unserved.

Poor health in the developing world is caused by a synergism among numerous factors:

-- undernutrition;

-- numerous, closely-spaced births that debilitate mothers and result in underweight infants with poor chances of survival;

-- unsanitary living conditions that encourage the spread of disease;

-- low levels of education (particularly among women) that lead to pervasive ignorance about the causes, means of preventing, and options for curing disease;

-- unequal distribution of health services;

-- poverty that prevents families from taking advantage of the scarce health resources that might be available to them.

Competing demands on limited, and in some cases shrinking, government budgets have led many countries to reduce the share allocated to the health sector in recent years. In most LDCs the public health sector receives only a small portion of the resources needed to operate, let alone expand, the system. Private resources remain largely untapped in organized health systems. Total government spending for health in many countries amounts to little more than one dollar per person annually.

In spite of a growing commitment among LDC governments to channel increasing health resources to their underserved rural populations, the hospital-based urban health system continues to absorb a disproportionate share of resources. In recent years, many governments have tried to extend access to rural and urban slum populations through the use of paraprofessional, often volunteer workers, who concentrate on preventive rather than curative care. However, problems of logistics, inadequate human resources, and scarcity of funds for the continuing costs of these "primary health care" systems impede their effectiveness. More efficient means must be developed to deliver the basic, cheap, effective measures (such as immunizations, oral rehydration therapy, nutrition surveillance and education, and family planning services to the populations most in need.

Progress for Health in US Bilateral Assistance Toward Meeting US Objectives

The United States continues to be a world leader in promoting and financing low cost, community-based health measures, principally through its support for cost-effective

primary health care programs. These programs are designed to provide to underserved populations a basic package of preventive and curative health services. Rather than relying on sophisticated, highly trained, and costly health personnel (such as physicians and nurses) to provide these services, they depend instead on paraprofessional health workers, such as village health aides, nurse-auxiliaries, health promoters, and trained traditional midwives. The basic mix of services depends on the specific health problems of the community, but usually includes: family planning information and services, nutrition surveillance and education, oral rehydration, immunizations against common childhood diseases, and basic curative health services. Where practical and financially feasible, water and sanitation improvements are an integral part of primary health care.

In 1983, more than one-half of AID's health budget of $139.5 million supported basic health services. AID support for health programs has been used principally for:

-- improving the planning, design and management of primary health care systems;

-- applied research to test innovative delivery mechanisms, with the aim of identifying the most cost-effective means of meeting local health needs;

-- basic and refresher training for primary health workers, and management training for higher level health personnel;

-- temporary provision of key health commodities (basic drugs, contraceptives, immunizations, rehydration salts, and health equipment and materials).

One of the more promising areas of AID activity in the health sector is the Agency's support for Oral Rehydration Therapy programs. Oral Rehydration Activity (ORT) is a simple, effective weapon against diarrhea, which is responsible for about 5 million deaths per year, or about 30 percent of all infant deaths. ORT involves the administration of a solution of sugar, salts and water to reverse the damaging effects of dehydration due to diarrhea.

In 1983 AID supported dissemination of this powerful health measure in a variety of ways. AID continued to finance important basic research activities at the International Center for Diarrheal Disease Research in Bangladesh. In cooperation with WHO and UNICEF, AID sponsored the first International Conference on ORT, which attracted 600 scholars, policymakers and health officials from developing as well as developed countries. AID has begun to work in collaboration with the Peace Corps to broaden official US Government support for ORT

programs. The Agency has also financed a series of ORT programs in developing countries to make this life-saving technology more widely available. Last year AID-funded projects demonstrated that ORT could be readily administered by mothers, and could result in a dramatic lowering of infant and child death rates, i.e., by one-third to one-half within one year.

In addition to its support for primary health care programs, the United States has also continued funding water and sanitation improvement programs, disease control programs, and basic and applied research in health.

New water supply and sanitation programs have concentrated on:

-- technical assistance on water resource planning and management;

-- training personnel in system design, operation and management;

-- health and hygiene education programs;

-- development of effective cost-recovery mechanisms;

-- construction or rehabilitation of water and sanitation systems that are technically and culturally appropriate, and whose costs can be borne by consumers over the long-term;

-- testing and support for local manufacture of parts and equipment of new, appropriate design.

The United States generally promotes the inclusion of disease control measures in primary health care programs. However, under a variety of conditions separate disease control programs are warranted. Thus, in addition to immunization against childhood diseases through PHC programs, AID supports:

-- malaria control programs using a combination of vector control and treatment of malaria victims, as appropriate;

-- onchocerciasis control, through a 15-donor multi-country program in the Volta Basin;

-- basic research leading to the development of a malaria vaccine, and in future years, to cost-effective means of preventing, diagnosing and curing respiratory and other diseases of import to LDCs;

-- operational research programs, again in concert with other donors, to develop cost-effective approachs to controlling six major communicable diseases.

During 1983 AID-funded researchers scored a major breakthrough in the search for a malaria vaccine. Millions of people in the developing world could be spared the debilitating and costly effects of malaria if a simple, inexpensive, safe and effective measure against this scourge were readily available. Late in 1983 several technical breakthroughs in the area of genetic engineering allowed the Agency's malaria vaccine program to isolate, develop and test prototype vaccines against both the mosquito and blood cell forms of the malaria parasite in animal models. With additional AID funding, the program is being accelerated to permit expeditious overseas field trials of the malaria vaccine.

International Assistance for Health Programs

In international health programs the expenditures of international donors are a small fraction (estimated by the World Bank at about 5 percent) of the expenditures by the developing countries themselves. Total external assistance for health care in developing countries was about $400 million annually in the late 1970s, approximately half of which was contributed by bilateral donors. The major multilateral organizations providing international health assistance are the World Bank and UNICEF, although WHO and UNDP (and recently the Asian Development Bank) also have significant efforts. International health assistance has focused on disease and vector control activities, basic health services, and health education, although in recent years there has been increasing emphasis on low-cost primary health care programs.

Prospects for the Near Term for Health

Although the US programs are just beginning to develop to conform with AID's new policy, the results are already encouraging. Dozens of countries have begun to reassess the financial resources for health that are potentially available in the private sector, and many are reviewing and already modifying policies to permit these resources to reinforce government's limited capacity. Numerous countries, with AID support, are experimenting with alternative financial mechanisms. Still others are investigating ways in which the private sector can contribute to health care, obviating the need to duplicate in the public sphere what the private sector can do more efficiently. Many of these activities are experimental, and their impact will be felt on a national scale only after programs have expanded and more time has elapsed. On the other hand, substantial progress has already been made

in actually delivering some of the new, cost-effective, health technologies, particularly oral rehydration and immunization.

Education

US Policy Objectives for Education

Human resources development activities are part of the US development assistance strategies in all sectors. Most of the US-assisted projects in health, agriculture, rural development and other sectors include training components, estimated at 20 percent of total activities. In addition to these sector-specific training activities, the objectives for AID's Education and Human Resources program are:

-- to improve the efficiency and the distribution of basic schooling opportunities for the 6-14 age group, with particular attention to girls and children in rural areas. AID will emphasize the use of media such as instructional radio to extend education cost-effectively and will give increased attention to ways to strengthen the analytic, assessment and planning capacities needed to improve education system management and use education resources efficiently;

-- to support skills training for adolescents and adults, with particular attention to training for self-employment and for employment in small and medium enterprises. AID will look for ways to involve employers more fully in establishing and maintaining skills training systems and to institutionalize support services for in-service, on-the-job and extension training programs;

-- to support scientific, technical, administrative and managerial training, with particular attention to strengthening training and research institutions and to staff development in institutions which are key to human resources programs.

Only in a few countries is AID able to commit sufficient resources to contribute directly to the expansion of education and training systems. AID concentrates on assisting countries to make more effective use of their own resources through training for key personnel, strengthening of key institutions and technical assistance with the analysis of policy choices, strengthening of organization, management and logistic capacities, design and application of educational media and training technology. AID's evaluations of its major education efforts over the past three decades confirm that AID can make a major contribution to educational reform and expansion even with relatively modest resource commitments, provided that the assistance is carefully targetted and sustained.

The World Situation for Education

The effectiveness of all development efforts depends to a considerable extent on the success of countries in raising general education and basic skill levels. The establishment of a basic schooling system for children is particularly critical, as it is the basis for all other education and training systems. Those countries which have been most successful in economic and social development have given early and sustained priority to this task.

An educated citizenry and a skilled workforce are essential to the efficient functioning of market economies and to the many technical and personal choices leading to changes in productivity, fertility, health, nutrition and other basic indicators of development.

In the wage economy, education and skills training increase and diversify people's options for remunerative employment. With educated and trained workers, a wider range of investments become attractive and feasible. Where most adolescents and young adults do not have a basic education, employers pay the price through reduced efficiency, increased supervision or increased on-the-job training costs.

For the self-employed, particularly in agriculture, productivity improves as individuals acquire basic education and technical skills. Technical information is obtained more easily from extension systems; new technologies and marketing practices are adopted more readily; risks are calculated more accurately and inputs are used more efficiently.

With respect to individual and family basic needs, health, sanitation and nutrition practices improve as education levels rise. In addition, infant mortality declines and birth rates tend to fall.

Over the last two decades, primary school enrollment in developing countries has tripled, to over 300 million, and most countries now enroll 70-80 percent of the 6-11 age group. While this represents substantial progress, there are major disparities between countries and within countries, ranging from near universal enrollment in the wealthier countries and the urban areas of most countries to 20-30 percent or less in poorer and more rural areas. Most developing countries continue to have very inadequate basic education systems.

-- approximately 600 million adults cannot read or do simple calculations;

-- schooling opportunities are poorly distributed, with children in the rural areas, the urban poor and females having the least opportunities to learn;

-- due to high rates of dropout and grade repetition, less than half of the children complete the four years necessary to obtain and retain basic skills;

-- the quality of education is poor, with schools typically overcrowded, in poor repair and lacking essential equipment, materials and trained teachers;

-- there are growing problems at the secondary level, where those children who survive the primary cycle often have little prospect of continuing;

-- most countries, particularly the poorest countries, face very difficult budget choices between the very large recurrent costs of sustaining the existing system and the pressing needs for continuing expansion, qualitative improvement and strengthening.

There has also been substantial progress in expanding training capacitites for technical and professional manpower. The general shortages which were typical of the last two decades have eased considerably, though all countries continue to have specific needs for additional key personnel. There are two general problems. First, the specialized and advanced training programs tend to be very expensive, making expansion difficult and raising public policy issues both of equity and of the most efficient allocation of available resources between the specialized training and the general education systems. Second, while the social demand for technical and academic training continues to be high, exceeding training capacity in most countries, there is an increasing problem of oversupply relative to the rate of economic expansion and job creation. In short, countries face simultaneous problems of shortages of skilled workers, skilled worker unemployment or underemployment and strong social and economic demand for additional training.

Countries need to diversify technical skills training, relate training more effectively to probable employment, involve employers more fully in the planning and implementation of training programs, and consider a variety of alternative approaches to the financing of technical training and university study. A particular weakness is in training for the self-employed and for the smaller scale enterprises, the sectors likely to provide most of the needed growth in employment. The most serious trained manpower problems remaining are in the poorest countries, such as those of Sub-Saharan Africa, which have yet to develop adequate local training capacity and which have had comparatively less assistance for external training.

In general, those countries which have the least adequate technical training and university systems have also made slower progress in expanding basic education systems. While improvements are required at all levels of national education and training systems, the most basic task is the establishment of schooling systems for children and skills training opportunities for adolescents and adults. Until these basic systems are substantially established, the universities and other advanced or specialized training programs will rest on a weak foundation and the supply of higher level manpower will be quantitatively and qualitatively inadequate as well as very expensive to produce.

Progress for Education in US Bilateral Assistance Toward Meeting US Objectives

The financial contribution of the United States to education and human resources development activities in developing countries is small, whether compared to the magnitude of the problem or to the programs of other donors. However, AID has well-recognized expertise, based on over three decades of international assistance to education, in areas such as: the application of economic analysis tools to education decision-making; the development and application of instructional technology and media; teacher training and the planned reform of basic schooling systems, and; adult education and nonformal skills training. In addition, there continues to be great demand for training in the United States, where for most technical fields and academic disciplines US institutions are recognized as among the best in the world.

Total development assistance for education and training was $116.3 million in FY 1983. An additional $6 million was provided under the Sahel program and approximately $50 million was provided for training programs and education system expansion in countries receiving economic support funds. An estimated $100-150 million of project-related training was included in other sector programs.

Just over one third of the AID EHR program supports activities in Africa, where the education and training systems are generally inadequate at all levels. There is a major new emphasis on improving the efficiency of basic schooling systems as well as a continuing program aimed at strengthening specialized training and researach institutions through advanced training for key scientists, technicians and managers. Another third of the AID program supports programs in Latin America and the Caribbean, where there is increased attention to skills training and renewed attention to basic schooling systems as well as a continuing need to train key scientists, managers and other institutional leaders. Approximately 13 percent supports training activities in Asia.

Another 13 percent supports programs in the Near East, where training for administrators and managers continues to be a priority along with the expansion of basic education in Yemen and in Egypt.

International Assistance for Education Programs

Total international assistance for education and training reached a level of $3.6 billion in FY 1978, and has been growing at a rate of 10-12 percent annually over the last several years. As large as this amount appears, it is dwarfed by the more than $60 billion spent by the developing countries themselves on education and training. Almost 80 percent of total external assistance to education programs comes from two sources: the OECD countries (of which France is by far the single largest donor); and the World Bank (IBRD/IDA). The World Bank's education lending has grown steadily from an average of $150 million in the late 1960s to over $500 million annually today. Of total international assistance to education programs, the US bilateral programs (including human resource activities and project-related training in non-education sectors) represents about 6 percent. (See IV.B.1 for further discussions.)

Prospects for the Near Term for Education

As noted earlier, the general shortages of higher-level manpower in developing countries have eased considerably in the last 20 years. Nevertheless, all countries continue to have specific needs for high-level personnel in key areas. AID will continue to support training for administrators, managers, scientific and professional personnel, both as a major part of its education and human resources development program and as project-related training components of projects in other sectors. Such training is estimated at 50 percent of the EHR program and 20 percent of other sector programs in FY 1984.

Support for basic schooling, vocational and technical training is increasing in priority. In FY 1983, AID established new policy guidance for Basic Education and Technical Training, which will begin to be reflected in the FY 1984 program. In assisting basic education, the major emphasis will be on assisting countries to find ways to manage and use scarce educational resources more efficiently. AID will also continue to explore ways to use educational media, particularly radio, to extend education cost-effectively in rural areas. These programs will account for at least 30 percent of the bilateral EHR effort in FY 1984. Major efforts focused on long-term reform and sustained experimentation will be supported in several countries in each region. Also, AID will continue to look for ways to extend skills training for out-of-school adolescents and adults, with particular attention

to the skills required by self-employed individuals such as farmers and in small businesses. Skills training programs will be included as part of most bilateral programs, either as separate EHR projects or as project-related training.

Nutrition

US Policy Objectives for Nutrition

US nutrition assistance emphasizes improving production, access to, and better utilization of food by those households and individuals that are at highest nutritional risk. This approach generally calls for integrating nutritional goals into health, rural development, and agricultural programs, and specifically entails:

-- increasing income and/or agricultural production of the highest risk groups;

-- improving rural markets and access to them;

-- nutrition education, including promotion of breastfeeding;

-- providing seasonal sources of income or food, and food supplements to especially vulnerable individuals.

The World Situation for Nutrition

In the area of nutrition, between 50 and 70 percent of the total population of developing countries are at a risk of consuming less than the internationally established standard for daily calorie requirements. Because of undernutrition, many of these people are more prone to disease and less able to learn or work effectively.

The primary cause of undernutrition is poverty and inequitable access to food. Except for Africa, most countries have been able to increase per capita agricultural output significantly over the last decade. Other causes of undernutrition are inadequate food distribution, storage and processing and temporarily elevated needs for food (for instance, during pregnancy and lactation, children's growth spurts, in the harvest work period and in illness). Allocation of household resources and food supply also affects the purchase and utilization of food.

Progress for Nutrition in US Bilateral Assistance Toward Meeting US Objectives

The definition of nutrition programs has been recently broadened beyond food supplements and weaning foods to include

income generation, home gardens, and nutritionally targeted regional development, education, and agricultural progress. The United States has been successful in transferring agricultural methods to the developing countries in general, but more emphasis is now being placed on transferring technology to the poorest farmers. The United States has also been in the forefront of nutritional science, both in research and in field applications. Collaboration among AID, the National Institute of Health, the Center for Disease Control, the Department of Agriculture, and universities has fostered research on innovative techniques for identifying, measuring and treating malnutrition, and assessing the nutritional impact of various programs.

Prospects for the Near Term for Nutrition

The challenge ahead for nutrition is to focus agricultural assistance programs on nutrition problems and to make Food for Peace a more effective development tool. Accordingly, funding levels for individual nutrition projects have been reduced, and nutrition programs will be in the future more closely integrated with health, rural development, and education programs which AID also supports.

Chapter III.B.

MULTILATERAL DEVELOPMENT ASSISTANCE PRIORITIES

III.B.1. PRIORITIES CONCERNING MULTILATERAL DEVELOPMENT BANKS (MDBs)

The Role of the MDBs

The World Bank and the regional development banks are institutions designed to assist the economic growth of their developing member countries. The United States played an important role in the establishment of most of the multilateral development banks, and has traditionally viewed US participation in the MDBs as complementing the efforts of its bilateral development assistance program.

In February 1982, the Administration released the results of what was the most thorough examination of the MDBs since their establishment.1/ The examination was intended to provide a comprehensive and dispassionate evaluation of the policies and operations of the MDBs and, by applying the Administration's basic policy preferences and priorities to the findings, to establish a policy and budgetary framework for US participation in these institutions in the 1980s.

In summary, the U.S. examination underscored the value of an effective MDB role in a market-oriented international system, and highlighted the very considerable potential the banks have for enhancing developing country growth and stability:

-- as catalysts for mobilizing private sector resources,

-- as sources of sound economic policy advice and technical assistance, and

-- as providers of inputs that the private sector would not or could not provide.

It is the combination of project financier, policy advisor, financial catalyst, and institution builder which makes the MDBs important assets. By working to maximize their comparative advantage in such areas as project preparation, economic analysis and technical assistance, the MDBs have a

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1/ United States participation in the Multilateral Development Banks in the 1980s, February 1982, Washington, D.C.

unique opportunity to promote the sound economic policy and free-market philosophy necessary to better integrate the developing countries into the international system.

Current US Objectives Concerning the MDBs

As a result of our analysis of MDB operations, the United States expects to participate in all future replenishments of these institutions. However, US support for the future capital increases of each bank will be directly related to the extent to which the institution is judged to be effectively performing its appropriate function.

The Administration's examination of the MDBs showed that there are weaknesses, some major, in MDB operation and that there is considerable scope for the banks to utilize their resources more effectively. In particular, the MDBs' record in influencing economic policies in developing countries is mixed, with influence more easily exerted in countries willing to cooperate with the MDBs in identifying and implementing policy changes. The Administration believes lending would have been more effective had greater efforts been made to enforce conditionality and minimize lending to those countries unwilling to adhere to the MDBs' policy advice. All too often the impact of MDB loans has been dissipated by conditions in borrowing countries which could have been avoided had there been stronger efforts by the MDBs to encourage appropriate economic policies.

The agreements to replenish the resources of the Inter-American Development Bank, the Asian Development Bank and the African Development Bank and Fund reflect, in large measure, the goals set in the Administration's review of these programs. First, the replenishments need to balance a stringent budgetary situation against the value of these programs to US interests. These replenishments provide for substantial reductions in budgetary requirements compared to the prior replenishments for the same institutions but still preserve -- indeed, strengthen, -- the contribution of these programs to our overall foreign policy objectives in Africa, the Western Hemisphere and Asia.

Second, the replenishments strengthen the financial policies of these institutions. In each of these programs, there are clear, definite improvements in the management of financial resources. The heightened caution in capital markets and the stringent budgetary situation in almost all member countries compelled attention to improved resource utilization and more precisely focused lending programs.

Third, the replenishments encourage improved economic policies in borrowing countries. It is hoped that economic

policymakers in borrowing governments will heed their own experience in managing their economies through this difficult period and the forceful persuasion of the banks to adopt policies contributing toward more rational, productive allocation of resources.

Fourth, these replenishments continue international support for greater integration of the developing countries into the international trading and financial system. The lending programs based on these replenishments will provide a significant portion of the financial resources required to allow the developing countries -- particularly the poorest countries -- to gain a fair part of the benefit from the global economic recovery in the coming years directly by financing economically sound projects and indirectly by expanding opportunities for trade and investment in borrowing countries.

Finally, a central objective emphasized by many donor countries, including the United States, during the replenishment negotiations was on the need to seek specific guidelines in each institution to guide a portion of the lending program to benefit needy people.

The African Development Fund, for example, already provides 90 percent of its loans to countries with per capita GNPs under $400; the Inter-American Development Bank established guidelines in 1978 to provide 50 percent of the lending program to benefit directly the poorest groups in borrowing countries; and the Asian Development Bank has cited "poverty reduction" as the key element of its development approach. The ADB also estimates that 60 percent of its lending activities provides significant benefits to the poor. In addition, the ADB has initiated and expanded its project benefit monitoring and evaluation effort, with strong support from the United States. This program will provide a basis for measuring the actual impact of ADB loans on the poorest groups in borrowing countries and for assisting ADB staff to design future projects.

MDB Progress

With the objective of getting more effective use of MDB resources, the United States is now working with other members to ensure that lending operations encourage:

-- adherence to free and open markets,

-- emphasis on the private sector as a vehicle for growth,

-- minimal government involvement, and

-- assistance to those needy countries which demonstrate an ability to make good use of scarce resources.

In advocating a more selective approach to MDB lending, the United States is discouraging emphasis on lending targets and encouraging more attention to loan quality and the adoption of an economic policy framework which facilitates project implementation. The United States also continues to support effective policies for phasing out reliance on both concessional and hard-window resources as this becomes warranted by a recipient's creditworthiness and access to alternate sources of funds, with the transition carefully managed so as to fairly reflect the unique economic situation faced by each borrowing country. It is our view that graduation should be managed by the MDBs so as to enhance, to the extent possible, a graduate's access to private capital markets.

III.B.2. PRIORITIES CONCERNING UNITED NATIONS AGENCIES

The fundamental US interest in international stability and economic development, which the previous section stressed, is well served also by channeling development resources selectively through the United Nations system. US support enables development-active UN institutions to exercise an influential role within developing countries, thereby offering a viable and attractive alternative to tied assistance from the Soviet bloc. The alleviation of hunger, disease, illiteracy and resource depletion, to which these UN agencies devote increasing emphasis, coincides with the high priority the United States accords to these same objectives and helps to combat threats to stability and peaceful cooperation.

Both developed and less-developed countries benefit from UN system efforts to focus worldwide attention on global issues of vital concern to all, and to mobilize appropriate multilateral action. The UN Development Program (UNDP) is the major international instrument for the delivery of multilateral technical assistance programs to the developing world. The World Health Organization's long-standing promotion of health services and development of international health standards has culminated in the adoption of a new and ambitious goal - the attainment by all the world's population by the year 2000 of a level of health that will permit them to lead socially and economically productive lives. The Food and Agriculture Organization (FAO), the World Food Program (WFP), and the World Food Council (WFC) have drawn attention to the worsening food situation in many developing countries. Programs such as the Food Security Scheme, the FAO Global Information and Early Warning System, and the International Fertilizer Scheme have been launched, with US support, to address this concern. In addition, FAO's data collection, analysis, and dissemination efforts serve international agricultural trade, and the United States has the largest stake in that trade. The United Nations Environmental Program (UNEP), in collaboration with FAO and other UN agencies, is creating greater awareness of the consequences of poor land management and forest degradation. UNEP/FAO programs on tropical forest conservation and regeneration are stimulating corrective action. The International Atomic Energy Agency (IAEA) is seeking to increase peaceful uses of nuclear energy and also serves as the principal promotor of nuclear safeguards and non-proliferation. These are only a few examples of how multilateral collaboration through the UN system serves the direct interests of the United States while promoting development in other countries.

Strengthening the UN system's capacity to promote development entails more than the transfer of resources by the traditional donors. Financial resources are scarce, and it is vital that this responsibility be spread more widely and that scarce donor resources be used more effectively.

OPEC members and other developing countries at the higher end of the per capita income scale are being encouraged to assist their less fortunate neighbors, and many are indeed attaining "net donor" status. OPEC countries have, for example, been major contributors to the International Fund for Agricultural Development (IFAD - see section IV.B.2.) in support of the latter's efforts to channel funds to the small farmers in LDCs.

The United States and other DAC members have placed greater emphasis in recent years on controlling budgetary growth within the UN system and in improving the efficiency and effectiveness of the UN development assistance programs. To this effect, they have encouraged UN agencies to define their development priorities more sharply and to re-examine continually their programs with a view to eliminating marginal activities and scaling-down unrealistically ambitious programs. They also have encouraged UN agencies to improve their project design and evaluation systems and have supported efforts within and outside the UN system to strengthen the UNDP's central funding and coordinating role with respect to all UN development assistance.

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Chapter III.C.

NEW INITIATIVES

The Administration has initiated a number of efforts in the foreign assistance area during the past year. These efforts were designed to: reach out to interested parties and constituent groups and build a consensus on the effectiveness and future direction of US foreign assistance programs; to determine where improvements can be made in the program; to make greater use of the private sector in the development process; to bridge the gap between domestic problems and foreign development; and to utilize the program on a regional or sectoral basis. These initiatives have taken the form of special advisory committees or have been integrated directly into existing programs. Six of these initiatives are described below.

Commission on Security and Economic Assistance

Concerned with the lack of public and legislative support for foreign assistance, declining real resource levels, and widespread skepticism regarding program effectiveness, the Secretary of State created a Commission on Security and Economic Assistance. The Commission undertook the first comprehensive review of foreign assistance in 13 years. Through the Commission, the Administration began to reach out to interested parties to build a consensus on the effectiveness and future direction of US foreign assistance programs.

The Commission was composed of representatives from the private sector (including Commission Chairman Frank Carlucci), and the Congress, all with an interest and involvement in the foreign assistance budget process. In fact, the Commission was unique in the intensity of legislative branch participation - 26 of the 42-member Commission were Congressmen or Senators.

The Commission found that foreign assistance programs - military, economic, development, humanitarian - are an integral part of the foreign policy of the United States and serve to advance US national interests. Among the Commission's recommendations were the following:

- Greater flexibility is needed in the administration of development assistance programs;

- Economic and security assistance are mutually reinforcing and hence should not be considered separately or as mutually exclusive alternatives;

- Integrated policy and program development, based upon country-specific reviews should provide the basis for US assistance efforts. (A comprehensive evaluation system, which captures long-term and secondary effects as well as technical effects of assistance, is needed).

- Increased effort in providing assistance for science and technology development (along the highly cost effective lines that have produced the green revolution and eliminated smallpox) and for training in the United States are needed.

In addition, the Commission called upon the President and the joint leadership of the House and the Senate to assert that the security and economic cooperation programs are mutually supportive and interrelated, and together constitute an essential and integral part of the foreign policy of the United States.

National Bipartisan Commission on Central America

One effort by President Reagan to further a bipartisan consensus regarding a specific geographical region/area was the establishment of the National Bipartisan Commission on Central America. Established by Executive Order 12433 in July 1983, the Commission was directed to assess the nature of US interests in Central America and the threats now posed to those interests. The 12-member Commission, chaired by former Secretary of State Henry Kissinger, provided recommendations to the President, Secretary of State, and Congress on elements of a long-term US policy for Central America that will be responsive to the challenges of social, economic, and democratic development in the region, and to internal and external threats to the region's security and stability. It proposes a comprehensive approach to economic development and a reinvigoration of the Central America Common Market. It also recommends a large scale, long term assistance effort to help stabilize the Central American economies, rebuild infrastructure, provide trade credits, and encourage rescheduling of multilateral debt. The Commission has also proposed a new organizational structure to administer a portion of the proposed program.

Various Federal agencies, including AID, have played a significant role in briefing the Commission on the social and economic developments within the countries of Central America. These briefings have discussed, among other issues, a long-term strategy for the region in areas such as health, nutrition, agriculture, family planning, and urbanization. The Commission presented its report to the President in January 1984.

The President's Task Force on International Private Enterprise

On May 2, 1983, President Reagan announced the formation of the Task Force on International Private Enterprise. The Task Force was established by Executive Order 12395 in fulfillment of the President's 1981 Cancun Summit pledge to encourage fuller participation of the private sector in meeting the objectives of the foreign assistance program. The Task Force is charged with advising the President and the Administrator of AID on the role of private enterprise in international economic development and in the implementation of foreign assistance programs and activities.

The Task Force is comprised of 19 distinguished private sector leaders, many of whom are chief executive officers of private enterprises (including Task Force Chairman Dwayne O. Andreas). The Administration expects the Task Force to serve as a forum through which the US Government and the US business and financial community can exchange information, review strategies, and identify ways to better link US economic and foreign assistance objectives. AID has been tasked with the administrative responsibility of supporting the Task Force.

Two themes run through the activities of the Task Force. The first theme is the development of indigenous private enterprise in developing countries. The second theme is the role US private enterprise can play, particularly through trade, in the economic development of these countries. Both of these themes are based on the realization that the economic health of the United States is directly related to the vitality of the international economic system.

Among the topics being examined by the Task Force are: basic trade policies, institutions, and mechanisms; disincentives to trade; private sector trade development mechanisms; the use of local currencies resulting from the sale of PL 480 Title I commodities; an Agricultural Development Corporation; encouragement of the transfer of US agricultural technology; the need for an expanded US PL 480 program; and US government projects and policies which help to develop the private sector in developing countries.

The Task Force is scheduled to present its report to the President and the Administrator of AID in September 1984.

Caribbean Basin Initiative

In February 1982, President Reagan announced a Caribbean Basin Initiative (CBI) that was designed to promote economic revitalization and expanded private sector opportunities in the

Caribbean Basin region. The CBI is a blend of economic assistance, trade, investment, and tax measures, with the aim of encouraging recipient countries to change their policies to promote the private sector and utilize free enterprise mechanisms. Consistent with this market-oriented focus, the CBI in part will help build economic growth by granting designated countries duty-free access to the US market for 12 years for certain product categories.

The CBI also offers a variety of new trade and investment policies such as partnerships, joint ventures, subcontract manufacture, and licensing. It is believed that such trade incentives should spur increased investment in export industries, relieve unemployment, and promote the development of the indigenous private business community. Many Caribbean nations plan to adopt incentives to increase US investment in their economic activity as a complement to these CBI initiatives.

AID is only one of many agencies that play an important role in the implementation of the CBI (others include the US Departments of Agriculture, Commerce, State, and Treasury, OPIC, the Export-Import Bank of the United States, and the US International Trade Commission). As a first step, AID administered a supplemental $350 million appropriation during FY 1982 and FY 1983 that was used to enable Caribbean countries to recover from their acute balance-of-payments problems. AID programs to the Caribbean region are continuing at significantly higher levels than in the past, with increased emphasis on strengthening the role of the US and indigenous private sectors in economic growth.

The Caribbean Basin Economic Recovery Act was enacted into law by the Congress in July 1983, and the first group of countries were designated as beneficiary countries on December 1, 1983. Designation of most of the remaining countries should be completed by the end of this year. The Act became operational on January 1, 1984.

Narcotics Control

An important effort to use foreign assistance to bridge the gap between US domestic problems and foreign development is through narcotics control. Narcotics production is partially a development problem by virtue of the fact that narcotics farmers are usually extremely poor and large scale cultivation takes place in developing countries. Typically, there is no single crop which provides a viable economic alternative for narcotics farmers. This situation is further complicated by the remoteness of narcotics growing areas and the existence of

social and cultural traditions which encourage the cultivation of crops used to produce narcotics. AID's response to this situation involves a complex set of activities such as finding a suitable mix of substitute crops, assuring free markets incentives, encouraging appropriate host country pricing, and marketing policies. AID strives to develop and to implement projects that address development needs in order to facilitate host government enforcement of existing bans.

Over the past year, AID has worked closely with other US Government agencies and the Congress to ensure a coordinated international response. To implement the Federal Drug Abuse Strategy announced by President Reagan, AID/Washington coordinates with the State Department International Narcotics Matters Bureau (INM), and AID Missions participate as members of Embassy narcotics coordinating committees.

AID's mandate under the Foreign Assistance Act instructs AID to "give priority consideration to programs which would help reduce illicit narcotics cultivation by stimulating broader development opportunities." Given this mandate, AID issued a Policy Determination on narcotics that encourages the design of projects which provide economic alternatives to farmers in narcotics growing areas. These income substitution efforts, however, can only be successful if host governments take enforcement action, consistent with their international obligations.

AID's latest effort in narcotics control is in Pakistan. A Gadoon-Amazai Area Development project has been started. It is a five year, $20 million agricultural and rural development project designed to transform Pakistan's principal opium poppy growing area into an area with a more diversified agricultural economy, with alternative sources of income for the farmers currently engaged in poppy cultivation. The project includes technical assistance in the development of new crops, improved livestock, watershed management, agricultural marketing, construction of new roads, trails, schools, and potable water facilities. An agreement, which governs the project, contains a separate, detailed return on enforcement, which establishes a timetable under which the poppy crop must be destroyed.

Economic Policy Initiative for Africa

At a time when US interests in sub-Saharan Africa are expanding, Africa is in the throes of crisis. After moderate but steady growth in the 1960s and early 1970s, the economic performance of Africa has declined and the continent's social and political stability is threatened. The World Bank, in its

World Development Report 1980, concluded that "on average, African people are as badly off at the end of the decade (1970s) as they were at the beginning" and further, that sub-Saharan Africa "has the most disturbing outlook of any region in the Third World and many will experience a decline in average incomes during the 1980s."

The Administration has requested a multi-year authorization of $500 million in development assistance to fund an Economic Policy Initiative for Africa that will help Africa address its economic crisis. These funds will be committed over a five year period, beginning with $75 million in fiscal year 1985. The primary objective of the initiative is to strengthen donor coordination to provide greater support for critical policy reforms such as eliminating government disincentives to agricultural production and marketing. Given the depth of the African economic crisis, reform has become imperative. Under this initiative, funds will be used to promote agreement on reforms and to serve as a catalyst to encourage countries to pursue growth-oriented policies. In a given year, the funds, in concert with assistance from the donors, would be concentrated on no more than six to eight countries. Within these countries most of the funds will be used in agriculture, given that sector's predominant importance in Africa.

Because of weak indigenous institutions, and the lack of trained people, funding under the initiative will be used, for example, to improve agricultural marketing systems and to train personnel. The initiative's funds will be used to seek policy changes in several sectors. For example, assistance might be required to help a Ministry of Education adopt and implement new policies to improve the cost effectiveness of its education system. When major policy reforms are agreed to in a particular sector, such as agriculture, countries often need assistance to implement these reforms.

IV

OFFICIAL UNITED STATES SUPPORT FOR DEVELOPMENT

Chapter IV.A.

MULTILATERAL DEVELOPMENT BANKS' PROGRAMS

Section III.B.1. discussed in detail the U.S. priorities concerning development assistance channeled through the MDBs, and the results of the US Government review of their role and policies. This chapter is an account of the programs and activities of the MDBs, and of US participation in FY 1983.

The average United States share of multilateral development bank resources (MDBs) is about 25 percent, ranging widely from 41 percent in the Inter-American Development Bank's (IDB) soft window to 5.79 percent in the African Development Bank's hard window. The US share in the MDBs has continued to fall in recent years as international cost sharing in these institutions has become more equitably and widely spread among donor countries.

The loan commitments of the World Bank Group and the regional development banks made in FY 1983 totalled approximately $20,441.2 million (total credits and loans). Nonetheless, MDB assistance represents only a relatively small proportion of the total external financial resources provided to the developing countries. Because of their catalytic effect, the MDBs have been successful in directing additional non-MDB financial resources to their borrowing members.

The US Government played an active role in replenishment negotiations for the African Development Fund (AFDF), the Inter-American Development Bank (IDB), and the Asian Development Bank (ADB) in FY 1982 and FY 1983. The United States has agreed to provide to the AFDF $150 million from 1983 to 1985, of which $50 million had already been appropriated at the end of FY 1983. In the IDB's Fund for Special Operations, the US has agreed to provide $290 million from 1984 to 1987. For the Asian Development Fund (ADF), the soft loan window of the ADB, the United States agreed to provide $540 million from 1984 to 1987. These funding arrangements are subject to Congressional approval.

Legislative Activities in FY 1983

The legislative activities during fiscal year 1983 included enactment of appropriation legislation for all the multilateral development banks (MDBs) and consideration of authorization legislation for increases in US capital subscriptions for the Inter-American Development Bank and the Asian Development Bank and for increases in US contributions to the IDB's Fund for Special Operations, the Asian Development Fund and the African Development Fund.

The appropriations were obtained largely under Continuing Resolutions (P.L. 97-276 and P.L. 97-377). In addition, $245 million was provided for the International Development Association in a Supplemental Appropriation Act (P.L. 98-63). For the multilateral development banks, these Acts provided a total of $1,537.0 million in budget authority for US subscriptions and contributions to the MDBs and $2,360.7 million under program limitations for callable capital subscriptions, which do not entail budgetary outlays. Specifically, the legislation provided the following for each of the MDBs:

-- The World Bank - $16.3 million for the 1977 Selective Capital Increase and $109.7 million for the General Capital Increase (GCI) in budget authority and $1.5 billion under program limitations for these two replenishments.

-- International Development Association (IDA) - $945 million for the third installment of the U.S. contribution to the Sixth Replenishment.

-- Inter-American Development Bank (IDB) - $221.7 million for the US share of the resource replenishments for the Fund for Special Operations (FSO); $62.4 million for the US share of the increase in subscriptions to paid-in capital stock, and $828.1 million under program limitations for callable capital subscriptions.

-- Asian Development Bank (ADB) - $0.3 million for the US share of the increase in subscriptions to paid-in capital stock; and $2.2 million under program limitations for callable capital subscriptions; $131.6 million for the US contribution to the Asian Development Fund (ADF).

-- African Development Fund (AFDF) - $50.0 million for the initial US contribution to the Third Replenishment.

For FY 1984, the Administration sought an appropriation of $1,604.7 million in budget authority and $2,889.5 million under program limitations. The request was awaiting Congressional action at the end of FY 1983. Table 1 summarizes the MDB

appropriations and program limitations for the FY 1983 and the FY 1984 request.

In addition, during FY 1983 the Administration sought legislation to authorize US subscriptions of $5.2 billion to the four year Sixth Replenishment of the Inter-American Development Bank, contributions of $290 million to the Replenishment of the IDB Fund for Special Operations, subscriptions of $1.3 billion to the five year Third Replenishment of the Asian Development Bank, contributions of $520 million to the four year Replenishment of the Asian Development Fund and contributions of $150 million over a three-year period to the Third Replenishment of the African Development Fund. The legislation was passed by the House and reported out by the Senate Foreign Relations Committee but had not been enacted by the end of FY 1983.

Major Developments in 1983

World Bank Group

The World Bank Group consists of the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), and the International Finance Corporation (IFC). The IBRD finances its lending operations primarily from its own borrowings in world capital markets, and the interest rate the IBRD charges on its loans is related to its cost of borrowing. IDA funds come mainly from government contributions and are extended on concessional terms only to the very poor countries. The IFC makes loans and equity investments primarily in the private sectors of the developing countries.

During FY 1983, the World Bank Group committed $15,799.5 million to aid the economic and social development of borrowing countries. Of this total, loans from the IBRD amounted to $11,621.4 million and new IDA credits totaled $3,174.0 million. IFC commitments were $1,004.1 million during the fiscal year.

In addition to providing project finance, the IBRD and IDA also provide technical assistance and serve as financial catalysts and institution builders. In addition, they continue to encourage the adoption of effective economic policies by borrowing countries and increased reliance on market forces. Agriculture and rural development continued to be the most important sector for IBRD and IDA lending in FY 1983, with new loan commitments of $3,785.6 million or 25.6 percent of total IBRD and IDA lending during the period. Other significant sectors of IBRD and IDA lending in fiscal year 1983 include energy/power ($2,853.9 million), transportation ($2,031.3

TABLE 1

Multilateral Development Banks
FY 1983 Appropriation and FY 1984 Request
($ millions)

	FY 1983 Appropriation	FY 1984 Request
IBRD		
Paid-in		
SCI	16.3	--
GCI	109.7	109.7
Subtotal	126.0	109.7
Callable		
SCI	146.9	--
GCI	1,353.2	1,353.2
GCI Companion	30.2	--
Subtotal	1,530.3	1,353.2
IDA	945.0	1,095.0
IFC	--	--
IDB		
Paid-in	62.4	58.0
Callable	828.1	1,231.0
Total	890.6	1,289.0
FSO		
1976 Replenishment	46.7	39.3
1979 Replenishment	175.0	1.8
1983 Replenishment	--	72.5
Total	221.7	113.6
ADB		
Paid-in	0.3	13.2
Callable	2.2	251.4
Total	2.5	264.6
ADF		
ADF II	20.4	14.1
ADF III	111.3	3.0
ADF IV	--	130.0
Total	131.6	147.1
AFDB		
Paid-in	--	18.0
Callable	--	54.0
Total AFDB	--	72.0
AFDF	50.0	50.0
Total MDBs	3,897.7	4,494.2
Budget Authority	1,537.0	1,604.7
Program Limitation	2,360.7	2,889.5

Totals may not add due to rounding.
Source: Treasury Department

million), development finance companies ($1,308.2 million), and water supply/sewerage ($760.9 million). Non-project lending amounted to $1,554.5 million, or 10.5 percent of total lending.

International Bank for Reconstruction and Development (IBRD)

During fiscal year 1983, the IBRD made new loan commitments of $11.621.4 million covering 141 loans in 46 LDCs. The IBRD also played an important development role by extending technical assistance and helping to coordinate bilateral aid flows to a number of major developing countries.

The regional distribution of new IBRD loan commitments in fiscal year 1983 was as follows: Eastern Africa, $356 million, for 11 projects; Western Africa, $737.2 million, for 10 projects; East Asia and Pacific, $2,112.7 million, for 22 projects; South Asia, $2,630.0 million, for 25 projects; Europe, Middle East and North Africa, $2,900.7 million, for 39 projects; and Latin America and the Caribbean, $2,884.9 million, for 34 projects.

The five developing countries receiving the largest amounts of new IBRD loan commitments during the fiscal year were: Brazil ($1,196.8 million), Indonesia ($1,466.9 million), India ($1,087.9 million), Mexico ($740 million) and Yugoslavia ($881.0 million).

Early in the year the IBRD adopted a Special Action program to better tailor its lending program to the strained financial circumstances of many of its members. Under this program, in some cases borrower counterpart contributions may be delayed, new lending focused on maintenance and rehabilitation of existing facilities, or Bank disbursements accelerated.

International Development Association (IDA)

IDA made new credit commitments of $3,174.0 million to assist 117 projects in 46 member developing countries during US fiscal year 1983.

IDA credits flow to the poorest among the developing countries (located primarily in South Asia and Sub-Saharan Africa) but the credits must meet the same economic, financial, and social standards applicable to IBRD loans. IDA credits have maturities of 50 years, with a ten year grace period. The credits bear no interest but carry an annual service charge of

0.75 percent on disbursed balances and 0.5 percent on undisbursed balances.

A member nation is generally eligible for IDA credits only if it satisfies the following criteria:

-- an annual per capita gross national product of less than $796 equivalent in 1981 dollars (the majority of IDA credits are extended to nations with much lower income levels);

-- ability to use the credit effectively; and

-- lack of creditworthiness to secure and service non-concessional debt such as IBRD and private market loans.

More than fifty countries are eligible under these criteria.

Some IDA credit recipients - such as India - are what are denominated as "blend" countries since they have sufficient creditworthiness to also assume some non-concessional IBRD financing. The United States encourages IDA recipients to move to the use of IBRD resources as soon as possible. More than 20 former IDA recipients have shifted their reliance on the World Bank to only IBRD and IFC resources.

The regional distribution of new IDA credit commitments in fiscal year 1983 was as follows: Eastern Africa $769.5 million, for 37 projects; East Asia and Pacific $253.6 million, for 7 projects; South Asia $1,634.2 million, for 35 projects; Europe, the Middle East and North Africa $66.6 million, for 6 projects; and Latin America and the Caribbean $56 million, for 4 projects.

The five largest recipients of new IDA credit commitments during fiscal year 1983 were: India ($905.0 million); Bangladesh ($350.4 million); Pakistan ($178.8 million), China ($245.4 million), and Sudan ($130 million).

IDA lending in fiscal year 1983 continued to be constrained both by the "stretch-out" in US contributions to the sixth replenishment (IDA VI) beyond the three-year period envisioned at the time IDA VI was negotiated internationally, and the significant depreciation of many donors' currencies vis-a-vis the US dollar. As a result, IDA fiscal year 1983 commitments of $3,340.7 million were considerably below the commitment level projected when IDA VI was negotiated.

International Finance Corporation (IFC)

During fiscal year 1983 the IFC assisted projects in developing countries with loans of $945.5 million and equity investments of $58.6 million. The total investment cost of these projects was several times the amount committed by the IFC.

The IFC is the entity in the World Bank Group specifically designed to provide financing and investment expertise which promotes productive private sector activity in developing member countries. The United States strongly supports the IFC and views its activities in the promotion of the private sector as a vital component in the development process. We also hope that the role of the IFC will be enhanced in the future. The United States is the largest shareholder in the IFC, having subscribed (as of June 30, 1983) to 26.97 percent of the IFC's total capital.

The IFC is one the few international development financing institutions empowered both to make equity investments and extend loans without government guarantees. This gives the IFC flexibility to provide the type of financial assistance best suited to the particular requirements of each project it helps to finance.

The IFC also provides significant technical assistance to the many developing countries which want to encourage domestic and foreign private investment. It has its own professional staff and is legally and financially distinct from the other entities in the World Bank Group.

Regional Development Banks

Inter-American Development Bank (IDB)

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

During FY 1983, IDB committed a total of $2,148 million in loans, an increase of 28 percent above the level of commitments in the preceding fiscal year. Of this total, $1,899 million was on conventional terms from the Ordinary Capital and Inter-Regional Capital resources of the Bank; and $849 million was lent on concessional terms by the Fund for Special Operations (FSO).

As of September 30, 1983, cumulative lending by the IDB since it began lending in February 1961 amounted to $21.2 billion, of which $9.12 billion remained outstanding. Since February 1961, $7.44 billion had been loaned from the Ordinary Capital account, $6.22 billion from the Inter-Regional Capital account, $8.9 billion from the Fund for Special Operations, and $1.2 billion from other sources (primarily the US Social Progress Trust Fund and the Venezuelan Trust Fund).

IDB lending in FY 1983 through Ordinary Capital, Inter-Regional Capital, and the Fund for Special Operations covered 74 projects in 18 countries. This lending was concentrated in projects in power and energy (approximately 40 percent of all FY 1983 loans) and agriculture (approximately 9.3 percent), however, the breakdown of loans into sector categories is somewhat misleading as many IDB projects are multipurpose in nature.

IDB lending is financed primarily through resources derived from borrowing in international private capital markets, the paid-in capital subscriptions of member countries, retained earnings, and member contributions to the FSO. As of September 30, 1983, the subscribed capital stock of the IDB amounted to $19.25 billion (of which $2.0 billion was paid-in and $17.25 billion was callable) and FSO resources totalled $7.7 billion. The US share of IDB capital was $6.7 billion or 35 percent of the total.

In February, the Sixth Replenishment negotiations were concluded. The Sixth Replenishment will cover the calendar years 1983-1986. The Sixth Replenishment totals $15.5 billion, consisting of $14.8 billion in the IDB's Capital Stock and $703 million for the FSO. A new Intermediate Financing Facility (IFF) was also created which will lend about $800 million on semi-concessional terms. Under the terms of the replenishment agreement the United States is scheduled to contribute $232 million in paid-in capital, $4,924 million in callable capital, and $290 million to the FSO. The United States will not contribute to the IFF since it will be funded from FSO reserves and FSO net income. The total lending program, including anticipated reflows, is expected to amount to $13 billion over the replenishment period.

In addition, in 1983 the IDB carried out extensive negotiations toward creating an Inter-American Investment Corporation to provide equity investments and loans to assist the private sector in Latin America.

Asian Development Bank (ADB)

The Asian Development Bank and Fund finance economic development in the Asian and Pacific regions. The Bank, established in 1966, provides loans on near-market terms (ordinary capital resources) and on concessional terms. Cumulative Bank lending as of September 30, 1983 totalled $11,278 million; $7,750 million from ordinary capital resources and $3,528 million from the ADF.

During US FY 1983, the Bank approved new loans totalling $1,656.1 million, approximately $177 million over last year's amount. Of this total, ordinary capital loans totalled $1,098.9 million and ADF loans amounted to $557.2 million. These loans financed 54 projects in 15 countries. Korea ($265.5 million), Indonesia ($264 million), the Philippines ($235.2 million), Thailand ($210.6 million), and Pakistan ($49 million) were the largest ordinary capital borrowers and accounted for over 90 percent of ordinary capital commitments. Bangladesh ($308.1 million), Pakistan ($131.1 million), Nepal ($48.4 million), and Sri Lanka ($39.8 million) were the largest borrowers of ADF resources.

ADB lending in FY 1983 concentrated in the agriculture and agro-industry sector (31.6 percent of all loans) and in the energy sector (32.7 percent). Transport, communications and development banks received 20.4 percent. Social infrastructure (water and sewerage, housing, education and health) accounted for 9.3 percent.

During FY 1983, the United States subscribed $2.5 million to the Ordinary Capital of the ADB, of which $0.3 million was paid-in and $2.2 million was callable. The United States also contributed $131.6 million to the ADF raising its cumulative contribution to the ADF to approximately $734 million.

During FY 1983, the Bank's members completed negotiations for a 105 percent third general capital increase of the ADB's Ordinary Capital resources. The increase in capital is worth $8.1 billion at the September 30, 1982 share value on which subscriptions to the general capital increase are to be based. The United States' share of the increase is planned at $1,323 million, of which $66 million is paid-in capital and $1,257 million is callable capital. Subject to receiving authorization and appropriations legislation, the subscriptions will be contributed in five annual installments over the FY 1984-88 time period. In FY 1982, the Asian Development Fund donors agreed to a replenishment of ADF resources amounting to over $3.2 billion for the 1983-86 period. The total US share of this replenishment is $520 million.

The ADB has increased its activities in promoting private sector financing in Asia. A new equity investment facility would allow the ADB to take equity participations in private enterprises in the region. Also a new complementary financing scheme was introduced to foster increased cofinancing with private commercial sources.

At its 1983 Annual Meeting, the ADB issued an operational plan to guide its activities for the coming decade.

The Bank also enacted a special action program to increase the rate of disbursements of its loans to developing member countries, in order to assist their recovery and adjustment programs from the world-wide recession.

African Development Bank

The African Development Bank (AFDB) was established in 1963 to contribute individually and jointly to the economic and social progress of its regional members. Membership in the Bank was restricted to African nations until late 1982 when non-regional countries began to join the institution.

The African Development Fund (AFDF) was established in 1973 as the concessional lending affiliate of the AFDB which makes loans only to the poorest African nations.

The United States joined the AFDF in November 1976 with an initial contribution of $15 million and has since contributed an additional $160 million to the Fund. Membership in the AFDF includes the United States, and 28 other countries. The AFDB is also a member and represents the 50 African members of the Bank. Total resources pledged to the AFDF as of September 30, 1983, amounted to $1,410 million.

During fiscal year 1983 AFDF loans totalled $238.5 million, distributed among 18 African countries. This lending supported projects in the public utilities, agriculture, transportation, and education and health sectors. Public utility projects (i.e., water supply and sewerage) absorbed the largest share -- 33 percent -- of the loan resources. Agriculture and transportation were the next most important sectors of AFDF lending during the period under review, accounting for 27 percent and 21 percent respectively.

The most significant event during FY 1983 was accession to membership in the Bank of the non-regional countries. The first non-African countries became members of the AFDB at the

end of December 1982 and the United States joined on February 8, 1983. In joining, the United States agreed to subscribe to a total of $359.7 million of Bank capital over five years. The United States' subscription represents 5.7 percent of the AFDB's total capital and 17 percent of the $2.1 billion non-regional subscription. By the end of FY 1983 19 non-regional countries had joined the AFDB bringing total Bank membership to 69 countries.

The 1983 annual meetings of the African Development Bank and Fund were the first attended by non-African countries as members of the AFDB. During the meetings Governors representing regional countries elected twelve Directors to an expanded Bank Executive Board and the non-regional Governors elected six Directors to serve on both AFDB and AFDF Boards.

In his address to the meeting the United States representative reiterated President Reagan's remarks made at the February 18 ceremony marking US accession to the AFDB. Regarding the US commitment to African development, and the opportunity for closer cooperation presented by entry into the Bank, the US representative also reminded the Bank and its membership that to gain full confidence of financial markets so as to mobilize funds for development more effectively, the AFDB would need to implement the tight budgetary controls called for in its five year operating program (1982-86), continue efforts to clear up arrearages, and continue improvement in loan quality.

Chapter IV.B.

INTERNATIONAL ORGANIZATIONS AND PROGRAMS

IV.B.1. UNITED NATIONS PROGRAMS

The United Nations system, comprising UNDP, UNICEF, and more than thirty Specialized Agencies and other entities, continues to play a highly significant role in development assistance activities throughout the world. UN development programs complement bilateral aid programs of the United States and other major Western donors and, through their technical assistance for institution-building and pre-investment feasibility efforts, increase LDC absorptive capacity and otherwise improve prospects for significant public and private sector participation in the development process.

Reports received regularly from US embassies and AID missions throughout the world indicate that UN development performance compares favorably with that of the major bilateral donors. Also, in terms of East-West issues, the presence of UN technical assistance activities in some 150 developing countries pre-empts a greater role for Soviet "development" concepts, and permits exposure to Western standards, particularly important for those developing countries currently under Soviet domination or influence.

In 1982, the United States contributed $576 million to development assistance activities of the UN system (excluding the World Bank Group). This amount includes $243 million for special funds and programs to the World Food Program (mostly in the form of commodities) and a $49 million pro-rata share of development activities funded from the regular (i.e., assessed) budgets of UN agencies. (It excludes, however, $207 million in contributions to refugee and disaster relief programs.) The US contribution constitutes 23 percent of "operational activities for development of the UN system in 1982," as reported by the Director-General for Development and International Economic Cooperation.

Described below are organizations and programs which were created primarily to serve development objectives (such as the UN Development Program, and the UN Industrial Development Organization) or which evolved over the years into major suppliers of technical assistance (such as the World Health Organization and the Food and Agriculture Organization).

United Nations Development Programme (UNDP)

The United States supports the efforts of UNDP to carry out its mandate to serve as the central funding and coordinating mechanism within the UN system for the delivery of grant technical assistance. Since the establishment of UNDP in 1966, the United States has consistently been its largest contributor. The US contribution of $140 million in FY 1983 was approximately 20% of total pledges to the program. The United States pledge of $160 million to UNDP for FY 1984 constitutes a 14.3 percent increase over the FY 1983 contribution. The United States is one of the 48 nations which constitute the governing body of UNDP. The United States prefers to channel its contributions for multilateral technical assistance through UNDP rather than to provide them directly to the Specialized Agencies and other entities which execute the projects. This policy is intended to harmonize technical assistance efforts with the development priorities of recipient countries and to minimize duplication among the agencies of the UN system. It takes advantage of UNDP's extensive network of field offices.

The United States supports UNDP because of its desire to participate in multilateral efforts which address the development problems of the less fortunate members of the international community. The US government also recognizes, however, that UNDP directly and indirectly serves other US interests. UNDP assistance, for example, fosters self-help and greater mobilization of domestic resources in recipient countries. In the long run, this progress leads to improved trade prospects for the United States. There are also a number of immediate direct benefits to the United States from UNDP activities. In 1983:

-- 883 US citizens were employed as experts on UNDP-funded projects; only the United Kingdom provided more of these experts than did the United States.

-- $33.2 million worth of equipment was purchased in the United States for UNDP-funded projects; the US share of equipment purchases was greater than that of any other country.

-- US firms received subcontracts worth $19.4 million for UNDP-funded projects; US firms received more UNDP subcontracts than did firms of any other nationality.

-- UNDP financed 1,629 fellowships for study in the United States; the United States educated more UN fellows than did any other country.

UNDP, headed by former US Congressman Bradford Morse, is the major multilateral instrument for the delivery of grant technical assistance to the developing world. UNDP has now provided more than $5 billion in such assistance to over 150 countries and territories. The organization provides a coordinating focus for the technical assistance efforts of the UN through its programming and funding activities. Operating through the Specialized Agencies and other UN bodies, UNDP provides technical assistance to be used in accordance with developing countries' national development priorities. The UNDP country programming process is intended to encourage recipient countries to examine their development needs and to assign priorities to development efforts. It has had substantial success in achieving this aim in the past. The United States desires that the process be strengthened and become more successful in the future.

UNDP expenditures by sector during the 1977-81 programming cycle were as follows:

	($million)	Percent
Agriculture, Forestry and Fisheries	687.4	24.5
Transport and Communications	351.7	12.5
Natural Resources	319.4	11.4
General Development Issues Policy and Planning	308.0	11.0
Industry	301.2	10.7
Education	195.2	7.0
Employment	177.7	6.3
Health	164.8	5.9
Science & Technology	119.7	4.3
International Trade and Development Finance	63.2	2.3
Human Settlements & Population	42.8	1.5
Political Affairs	22.4	.8
Culture	21.0	.8
Social Conditions & Equity	19.1	.7
Humanitarian Aid & Relief	9.2	.3
TOTAL	2802.8	100.0

UNDP expenditures during 1983 totalled $598 million, of which $44 million was executed by UNDP's Office of Program Execution (UPE). Major executing agencies included the Food and Agriculture Organization ($136 million), the United

Nations' Development and Technical Cooperation Division ($77 million), the International Labor Organization ($48 million) and the UN Education, Scientific and Cultural Organization ($42 million). It should be noted that although the World Health Organization (WHO) spent $269 million on development assistance in 1983, this total included only $18 million of UNDP-funded assistance versus $142 million funded from its regular budget. This reflects the fact that WHO's constitution authorizes it to spend over fifty percent of its regular (assessed) budget on development assistance.

UN Fund for Population Activities (UNFPA)

The UN Fund for Population Activities is the largest source of multilateral population assistance for developing countries and (UNFPA). The United States is its principal donor. United States pledges to the UNFPA have been made on a calendar year basis since 1970. In calendar year 1983, there were 89 donors to UNFPA and the amount of pledges was $128.63 million, of which the United States pledged $33.76 million, or 26.2 percent of total pledges for the year. Total pledges from governments since the inception of UNFPA in 1967 amount to $1,104.6 million, of which the United States pldedged $335.9 million, or 30.4 percent.

UNFPA was created in 1967 to assist developing countries with high population growth rates and low national incomes to solve their population problems. The General Assembly has recognized the Fund as the focal point of population activities in the system. Through 1983, more than $1 billion of cumulative allocations have been transferred by the Fund from developed to developing countries. As of July 31, 1983, the Fund was assisting over 1,700 projects; and an additional 1,800 had been completed. UNFPA-funded expenditures on development assistance totaled $108 million in 1982.

The Fund has made great strides since it became operational 14 years ago. It continues to offer flexible and cost-effective programs, well suited to complex population problems. As more and more countries adopt explicit policies to deal with their population problems, birth rates in a growing number of developing countries are beginning to decline. An enormous amount of work remains to be done, however, to assist developing countries with their population problems: many of them are experiencing the highest population growth rates in human history. The level of voluntary contributions to UNFPA over the last four years has fallen

short of conservative annual funding targets approved by the UN Development Programme Governing Council. The United States contribution will be increased to $38 million in 1984, but the global resource situation will probably remain constrained in the next few years. Important developments in population activities will be reviewed at the Mexico City International Conference on Population in August 1984.

United Nations Children's Fund (UNICEF)

The US Government has been a prime supporter of UNICEF since its inception, and the UNICEF Executive Director is an American national. Although the United States' proportional share of government contributions declined from 69 percent in the post-war period to 15.5 percent in 1982, the United States has remained the largest single donor, with an official contribution of $41.4 million to general resources and $13.2 million to relief for Lebanon in 1982.

Begun as an emergency program for European children in the wake of World War II, UNICEF evolved in the early 1950s into a long term voluntarily funded, humanitarian development program. Its main objective is to improve the health and living conditions of children in developing countries and assist children in becoming productive members of their societies. UNICEF works closely with governments and local communities in 112 countries, often in collaboration with UNDP, WHO, and other multilateral organizations as well as bilateral aid agencies.

A major portion of UNICEF's resources are devoted to helping the poorer segments of the population to meet basic human needs. In collaboration with WHO, UNICEF has pioneered concepts of "primary health care" and other "basic services" in rural areas. In designing programs, UNICEF emphasizes self-help and direct participation by the needy in improving their conditions.

Three types of cooperation characterizes UNICEF's work:

-- assistance in the planning and design of primary health care and basic services for children;

-- delivery of supplies and equipment for these services; and

-- provision of funds for the training of local personnel needed to work on behalf of children (teachers, nutritionists, health and sanitation workers, etc.).

The following examples are indicative of the assistance UNICEF provided in 1982:

-- assistance to expand child-nutrition programs in 94,600 villages, including stipends to train 36,100 village-level nutrition workers, equipment for nutrition centers and demonstration areas, and delivery of 24,438 metric tons of donated food (mainly wheat flour, non-fat dry milk, and special weaning foods);

-- grants for training 69,000 doctors, nurses, and health workers, and supplies and equipment for 44,800 health centers;

-- help in completing 76,824 water supply systems, including 71,011 wells with handpumps;

-- equipment for 80,200 primary schools and stipends for training 96,400 teachers; and

-- equipment to more than 32,500 child welfare and day-care centers and stipends to train over 53,100 women and girls in child care, homecrafts, food preservation, and income-earning skills.

All of UNICEF's income comes from voluntary contributions. In 1982, 134 governments contributed a total of $298 million to UNICEF, representing 78.8 percent of UNICEF's total income of $378 million. Contributions from private organizations and individuals, and the sale of greeting cards and stationary accounted for the balance of UNICEF's income. The percentage breakdown of UNICEF expenditures by program in 1982 is as follows:

-- Maternal and child health	23.9%
-- Water supply/sanitation	28.2%
-- Child nutrition	8.9%
-- Social welfare services	7.5%
-- Formal education	9.4%
-- Non-formal education	4.2%
-- Emergency relief	7.5%
-- General*	10.3%
Program Total	100.0%

*(This assistance cannot be broken down into any one of the categories above.)

In December of 1982, UNICEF released a report entitled The State of the World's Children, 1982-83. This report outlines a strategy for a child health revolution using new developments in health science, indigenous resources and organizations, and modest external assistance from many cooperating donors, including USAID, WHO, UNDP, the World Bank and UNICEF itself, to save the lives of as many as half of the 40,000 children who die each day in developing countries. The key elements of this strategy, which has been given the acronym GOBI, are: (G) growth rate charts, which enable mothers to detect invisible signs of malnutrition, (O) oral rehydration salts, which make available an inexpensive home treatment for diarrheal-related dehydration, a major cause of and contributor to deaths among young children in these countries, (B) breast-feeding, which provides infants with not only inexpensive, safe nutrition, but also with immunological protection, and (I) immunization efforts, which use recently improved vaccines to prevent the main childhood diseases (measles, diptheria, whooping cough, etc.) from killing an estimated five million children each year and disabling an additional five million children.

This UNICEF report has attracted extensive attention from the media and unprecedented support from world leaders. On April 18, 1983, President Reagan issued a statement endorsing this UNICEF-inspired cooperative effort. The Prime Ministers of Great Britain, France, Sweden and India have also made statements in support of this effort. In June of 1983, UNICEF cooperated with WHO and AID in sponsoring the International Conference on Oral Rehydration Therapy to seek better ways to utilize this technique and to draw world attention to its full potential in saving children's lives.

On December 8, 1983, UNICEF staged ceremonies in Washington and Brussels to mark the release of The State of the World's Children, 1984, the fourth report of this series. This latest report again focuses on the GOBI strategy, describing UNICEF efforts to promote and implement elements of the strategy in several developing countries. This report is especially useful in that it describes both successes and failures and attempts to analyze the reasons for each and the lessons to be learned. UNICEF is maintaining and increasing the international momentum for a child health revolution.

World Health Organization (WHO)

The World Health Organization, based in Geneva, functions as the chief coordinating authority on international public health. It works to build strong national health services to

enable individual countries to become self-reliant in meeting their own essential health needs. Since its formation in 1948, WHO has worked to eradicate or control endemic and other widespread diseases including smallpox, malaria, tuberculosis, and venereal diseases. It has prompted the worldwide planning of health services, particularly in the areas of nutrition, immunization, environmental sanitation, maternal and child care, and mental health. Its experts have generated advanced programs which train community health workers, and retrain medical and paramedical personnel in low cost technolgies. These programs have produced remarkable gains for the traditionally underserved rural and tropical areas which are particularly prone to outbreaks of highly communicable diseases. WHO has also coordinated the development of international standards for medical diagnostic procedures and promoted national regulations governing food, biological, and pharmaceutical products.

A major shift of emphasis in WHO strategy occurred in 1977 when the World Health Assembly adopted an ambitious new goal for the Organization -- "Health for all by the year 2000" or, more specifically stated, attainment by all the world's population by the year 2000 of a level of health that will permit them to lead socially and economically productive lives. This goal has struck a responsive chord in industrialized as well as developing countries. The World Health Assembly in 1981 adopted a "global strategy" for achievement of "health for all," and is elaborating useful intermediate goals and indicators for progress with "primary health care" serving as the key ingredient in this strategy.

This shift in WHO's emphasis means that the central role of WHO is evolving from primarily the provision of technical assistance to one of health coordination and development of new methodologies. Strengthening indigenous health management and planning capacities in developing countries is a main feature of this new direction, with WHO providing training, helping health ministers to identify priority health problems, and helping member countries to obtain and use external assistance. In addition, WHO member countries are being assisted by the special program on research into tropical diseases (a joint effort of WHO, the World Bank, and UNDP), and the special program on human reproduction, which is promoting research into new contraceptives. The Expanded Program on Immunization aims to make available to each child by 1990 immunization against the six major childhood diseases: polio, tuberculosis, pertussis, diptheria, measles and tetanus. WHO and AID have been closely coordinating their respective research programs to expedite the development of a human malaria vaccine.

US Government policy has been to encourage the new emphases of WHO. The "health for all" strategy highlights the needs of neglected people within developing countries, which is consonant with US international health policy. WHO is also concerned with health problems of industrialized societies. It has initiated, at US request, a new International Program on Chemical Safety. It plays a major role in work on the United Nations International Safe Drinking Water and Sanitation Decade. WHO has programs dealing with drug abuse, cardio-vascular diseases, alcoholism, smoking and mental health. Through its affiliated International Agency for research on Cancer (IARC), in Lyon, France, WHO provides important work on the epidemiology and causes of cancer.

In 1983, the World Health Assembly adopted a budget of $520.1 million for 1984-85; this is the largest regular budget of any UN specialized agency. WHO expected to receive almost an equal amount in voluntary contributions and contracts from member governments, private agencies and other international bodies, such as UNDP and UNFPA. In 1983, the Assembly also elected Dr. Halfdan Mahler of Denmark to a third five-year term as WHO's Director General and adopted a new six-year program of work for 1984-89.

During 1984, WHO will be giving increased attention to the Action Program on Essential Drugs, through which WHO is attempting to develop means to supply essential drugs to the poorest people at lowest possible costs; WHO is collaborating with UNICEF and with the pharmaceutical industry in this effort. Steps will be taken to strengthen monitoring of implementation of the "health for all" strategy, and the World Health Assembly will give special attention to a progress report on infant and young child nutrition.

The World Food Council (WFC)

The World Food Council (WFC) was created by the UN General Assembly as a high-level political forum on food issues. It meets annually at the ministerial level and has a small secretariat, served by FAO.

At its June 1983 annual meeting, the Council reaffirmed the central role of national food strategies in the process of reordering priorities, in coordinating national and international funding and application of technology, promoting food production and increasing the national food self-reliance of developing countries. It emphasizes particularly the need to address policy issues at the country level as a precondition to increased agricultural production.

At its session in 1982, the Council had recommended that, for its tenth special session on the anniversary of the 1974 World Food Conference, an assessment should be prepared of progress made in meeting the objectives of the World Food Conference and the priority tasks for the period ahead. The General Assembly, in its resolution 37/247 of 21 December 1982, welcomed that decision. The Council in its ninth session reaffirmed the importance of this assessment which would take into account the resolutions of the World Food Conference and the recommendations of World Food Council meetings. As part of this assessment, the Secretariat will prepare a review of the ten years of multilateral assistance in food and agriculture since the 1974 World Food Conference. In addition, an independent group of experts will prepare an assessment of progress achieved over the ten year period in meeting the objectives of the 1974 Conference.

Food and Agricultural Organization (FAO)

The United States played the leading role in the formation of FAO in 1943 and is the largest contributor to the organization, with an assessment of 25% of its budget. As the world's leading agricultural producer and exporter, the United States has a vital interest in the international agricultural issues which are considered by the FAO. The United States Secretary of Agriculture chaired the 1983 biennial FAO Conference which focussed, among other things, on the food problems of Africa. Since the basic priorities of FAO are congruent with those of the United States, the multilateral activities carried on by FAO promote interests shared by the United States.

The Food and Agriculture Organization (FAO) is a cooperative grouping of 156 member countries pledged to:

-- raise levels of nutrition and standards of living;

-- improve production and distribution of all food and agricultural products; and

-- improve the condition of rural populations; and thus contribute to an expanding world economy and to the elimination of hunger.

In serving the needs of its member nations, FAO has become the largest single organization providing agricultural technical assistance to developing countries.

FAO activities may be divided into several broad categories or functions:

-- providing a forum for international discussions on world food and agricultural problems;

-- collecting, analyzing, and disseminating a wide range of data on food, agriculture, and rural affairs of interest to its member countries; serving as the focal point within the UN system for such data, and for publication of relevant documents and periodicals;

-- providing an early warning system and a focal point for international consultations on serious food situations; and

-- providing technical assistance and training opportunities for developing countries in all aspects of food and agricultural development.

FAO income is derived from two sources: the assessed contributions from member countries and voluntary extra-budgetary contributions by governments, international organizations, and various nongovernmental donors. The United States' assessed contribution was $91.1 million and will be about $106 million for 1984-85. During 1982 the United Nations Development Program (UNDP) provided $140 million for projects to be implemented by FAO in more than 100 countries. In addition, "Trust Fund" activities of FAO accounted for total spending of $123 million in 1982. The Organization also administers a Technical Cooperation Program (TCP), financed from its own regular budget for which $47.4 million was allocated in 1982-83. Under the TCP the FAO provides prompt short-term technical assistance, training, and commodity assistance to countries with unforeseen needs or facing emergency situations. FAO expenditures on Development assistance totalled $271 million in 1983.

FAO responds to the urgent need for capital for agricultural development by helping countries to identify and formulate investment projects. For this purpose FAO works closely with a number of international and national financing institutions, including the multilateral development banks, the International Fund for Agricultural Development (IFAD), Arab development funds, and national development banks.

Examples of FAO's principal activities, largely under regular program funding, include: plant production and protection; animal production and health; fertilizer; land and waste resources; fisheries; food policy and nutrition;

forestry; social and economic policy programs; agrarian reform and rural development; and training of developing country nationals in all areas of agriculture.

World Food Program (WFP)

The United States has been a major supporter of the World Food Program (WFP) since it was established in 1962 by the United Nations and FAO to provide food aid in support of agricultural and rural development in developing countries. The program's resources come from voluntary pledges from over 100 participating countries in the form of commodities and cash for services such as shipping. Two thirds are in commodities and one third in cash and services. The Program's "food basket" contains about 50 commodities including cereals such as wheat, maize, and sorghum and also protein-rich foods such as milk, meat, cheese, fish and poultry as well as edible oils, sugar and tea.

Beginning with total resources of $85 million in 1963-65, the target figure has gradually increased. For 1981-82, the pledging target was one billion dollars, against which pledges of $848 million were recorded as of September 30, 1983. The pledging target for the current biennium (1983-84) is $1.2 billion, of which $952 million (or 79% of the target) was recorded as of September 30, 1983. WPF's target for the next (1985-86) biennium is $1.35 billion, for which pledging is scheduled to begin in March 1984. The United States has remained the largest donor to the WFP, with its most recent pledge of $250 million in the 1983-84 biennium, and has also agreed to the new $1.35 billion target for the next biennium.

In the 20 years of the program's life, 1,191 development projects in 114 countries and 647 emergency projects in 96 countries have been approved. The WFP contribution is frequently only a part of the total project cost. The remainder -- often three or four times the value of the WFP input -- comes from recipient countries or other bilateral/multilateral sources. One of the primary values of WFP aid is its stimulus effect which may be the catalyst allowing a project to go forward.

To carry out the major objective of supplying food for promoting social and economic development, four types of projects are aided:

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

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

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

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

International Labor Organization (ILO)

The International Labor Organization (ILO) is a lead agency in the UN system for technical assistance programs relating to both urban and rural employment creation in developing countries. The ILO provides programs in vocational training and management, employment promotion, industrial relations, labor administration, worker education, working conditions and environments, social security, and sectoral activities including cooperatives, hotel and tourism training, and training for maritime workers. It is estimated that the funding level for ILO technical assistance will be approximately $105 million in 1984, of which about $6 million comes from the regular budget. Most of the rest comes from the UNDP which funds many ILO activities; some money is provided by UNFPA and some from trust funds (bilateral funding for specified projects channeled through the ILO). ILO expenditures on development assistance totalled $87 million in 1983.

United States participation in the work of this 64 year-old institution dates back to 1934 when the United States first became a member. In the 1980s the United States became concerned about increasing politicization of conferences and lack of impartiality in the treatment of human rights matters, and it was deemed necessary to withdraw (1977). Significant progress in addressing these concerns was noted afterwards, and the United States resumed membership in 1980.

The ILO's developmental activities are generally supportive of American foreign policy interests. Particular mention should be made of the ILO's Special Public Work Programs through which ILO assists in the planning, design, implementation and evaluation of labor-intensive public work schemes as elements of national rural development programs. Also important is the emphasis placed on developing country adherence to international conventions and recommendations of

the annual International Labor Conference concerning the welfare of working people and their families. The United States plays an active role in drafting such conventions and their implementation in the social and political stability of these countries.

United Nations Industrial Development Organization (UNIDO)

UNIDO has the UN mandate for promoting industrialization in the developing countries. It is a major supplier of technical assistance for industrialization, serving as the third largest executing agency for UNDP-funded projects and also operating from trust funds and the voluntary United Nations Industrial Development Fund.

The technical assistance activities of the organization cover a wide range, are typically small in scale, and are, in the US view, the most useful of the organization's activities. The organization delivered $84 million in such assistance in 1983, through over 2,000 projects. The organization also conducts informal "consultations" in individual industrial or managerial sectors designed to identify and influence trends in industrial development. The participation of US company representatives often brings to the attention of the other participants the concerns and needs of the private sector in industrial development. UNIDO also conducts studies and research on global industrial issues. The United States has serious reservations as to how effectively these latter activities serve the development needs of LDCs.

The United States has given special support to UNIDO's Investment Promotion Service office in New York. This office trains investment officers from developing countries, who alert the US financial community to investment opportunities in their home countries. The New York office has also cooperated with USAID in projects to assist entrepreneurs in developing countries and to promote private sector investment in the Caribbean. In addition, AID and UNCDF have cooperated on low cost housing projects in developing countries.

UNIDO is seeking conversion to Specialized Agency status. The United States has signed the agreement to this effect. The Senate ratified it on June 21, 1983, and President Reagan transmitted it to the UN Secretary General on September 2. The main advantage of Specialized Agency status would be to increase the ability of major contributors to influence the management of the organization.

United Nations Educational, Scientific and Cultural Organization (UNESCO)

UNESCO was created in 1946 to promote collaboration among Member States in the fields of education, science, and culture. To achieve this objective, UNESCO sponsors international conferences, finances expert meetings and research, and provides technical assistance. The major thrust of UNESCO's programmatic activities shifted in the late 1950s from intellectual cooperation and exchange to development priorities of the poorer Member States. Now approximately 60 percent of UNESCO's activities can be considered development-related. UNESCO expenditures on development assistance totalled $78 million in 1982, of which $42 million was financed by UNDP. UNESCO's developmental activities included research as well as technical assistance in the fields of basic education, curriculum development, adult literacy, skills training, information and communications, environmental planning, national research management, water use and conservation, and rural development.

The United States is the largest contributor to UNESCO, providing 25 percent of its assessed budget (over $49 million per year for the 1981-83 budget period). US scientists and educators play a prominent role in UNESCO-sponsored meetings and UNESCO-funded research and the US Agency for International Development (AID) has actively participated in UNESCO's Man and the Biosphere Program (MAB). Of the fourteen research areas covered by MAB, AID has been particularly involved in watershed, forestry and arid land management.

The US Government, however, has objected to the rate of real program growth of the UNESCO assessed budget since the mid-1970s. The 1984-85 approved budget of $374.4 million, while nominally 13 percent lower (because of exchange rate fluctuations) than the $430.6 million 1982-83 budget, reflected real program growth of 5.5 percent. The US Government also has been dissatisfied with the direction followed by UNESCO policies (for instance, the New World Information Order) and by UNESCO's failure to respond to the priorities which have guided US relations with all multilateral organizations.

In that context, during the second half of 1983, the Department of State carried out a reassessment (including an in-dept policy review) of US participation in UNESCO. At the conclusion of this reassessment, the US Government decided that continued US participation in UNESCO - as currently organized, focused and directed - did not serve the interests of the United States. Consequently, the US Government notified UNESCO on December 28, 1983 of its decision to withdraw from the organization effective December 31, 1984.

The following reasons were cited as among those supporting the US decision to withdraw:

-- politicization of issues dealt with by UNESCO;

-- policies considered to be inconsistent with the basic institutions of a free society, especially a free market and a free press; and

-- lack of budgetary restraint.

The United States will continue to further--through other means of inter-governmental cooperation and various forms of private sector activity--international cooperation in education, science, culture and communications that UNESCO was originally created to promote.

United Nations Capital Development Fund (UNCDF)

UNCDF was created in 1966 for the purpose of providing, on a grant basis, seed money for catalytic demonstration projects for the poorest people in the poorest countries. Operating under the administration of the UN Development Programme, the UNCDF supports self help projects too small for the multilateral development banks to fund and promotes the application of appropriate technology concepts. By the close of 1982, UNCDF was assisting 185 projects in 43 countries. Project approvals totalled $60 million in 1982. At the end of 1982, UNCDF resource allocation reflected the following emphases:

-- Agriculture	20.8%
-- Potable Water Supply & Sanitation	20.4%
-- Industries	10.0%
-- Health	6.4%
-- Shelter	4.7%
-- Development of Water Resources for Agricultural Purposes	9.8%
-- Education & Training	6.0%
-- Energy	4.7%
-- Transportation and Communications	17.2%
	100.0%

UNCDF priorities coincide with US interests in bringing grassroots level assistance to the poorest people with emphasis on appropriate light capital technologies. The United States became a contributor in 1978 with a pledge of $2 million, which has been renewed for the same amount in succeeding years.

Voluntary Fund for the UN Decade for Women

The Voluntary Fund for the UN Decade for Women is a development assistance fund which finances programs and projects specifically aimed at helping the poorest of the world's women. Emphasis is placed on projects which are innovative or catalytic in nature. The main objective is to provide seed money for projects which will grow and become self-supporting, or, once evaluated, will be adopted or emulated by larger development funds. In 1982, two of every three projects approved assisted employment and income-raising activities such as small animal husbandry, agriculture, and marketing. Rural community development was a subject of 22 percent of the projects, while training of planners and managers and development of improved technologies were features of the remaining ones.

To avoid duplication with other UN system projects, all Voluntary Fund proposals are carefully coordinated through the UN regional Economic Commissions (if they involve several countries) or through UNDP (involving a single country). Over eighty percent of approved 1982 projects will be administered by UNDP.

International Fund for Agricultural Development (IFAD)

The International Fund for Agricultural Development (IFAD) was established in November 1977 as a Specialized Agency of the United Nations with the purpose of assisting developing countries through the provision of loans and grants to expand food and agricultural production. IFAD gives highest priority to projects in poor food-deficit countries, and concentrates its resources on activities that are specifically designed to assist small farmers and the landless poor. The United States provided $200 million of IFAD's original funding of just over $1 billion. Other developed countries provided approximately $370 million and the members of OPEC contributed $435 million.

The idea for the Fund was first proposed at the 1974 World Food Conference which focused governmental and public attention on the critical food and nutrition problems facing the developing countries. IFAD represents the first, and so far the only, major commitment on the part of the OPEC countries to contribute to an international organization on a basis approaching equality with the OECD nations.

The Fund is unique in its tripartite structure, in which the developing country members have an equal voice in the operations of the Fund along with each of the two major donor groups. Total memberships of the Fund comprises 139 nations,

including the 20 members of Category I (the developed countries), 12 members of Category II (OPEC) and 107 developing countries in Africa, Asia and Latin America.

The Fund's lending policies and criteria, with the special focus on small farmers, the landless and the rural poor, are consistent with the agricultural development policy adopted by the United States to guide its own bilateral assistance programs. Similarly, as a result of US insistence that the Fund avoid duplicating the work of other international organizations, IFAD was specially chartered to rely to the maximum extent feasible on the staff and expertise of other institutions while keeping its own organization and staff as small as possible.

The United States was among the first countries to pledge support for the Fund during the Ford Administration, and one of the first to obtain the necessary legislative approvals for a contribution. In consequence, the United States exercised considerable influence during the formative period of IFAD on all aspects of its organization, policies and objectives. As the largest single contributor, the United States provides IFAD's Vice President, is represented on IFAD's Executive Board and in this capacity continues to play an active role in guiding the Fund's operations and policies.

Underlying US participation and support for IFAD are four interrelated US interests:

-- Increasing agricultural development as a means of alleviating world hunger and malnutrition;

-- Strengthening, in particular, the role of small farmers and the landless poor in the productive process with a view to maximizing private initiative and assuring that the benefits of increased production accrue to those most in need of development assistance;

-- Encouraging non-traditional aid donors, particularly the OPEC countries, to play a cooperative and constructive development role and to assume a larger responsibility for providing development assistance within a multilateral framework;

-- Improving relations with the developing countries as a group by supporting a constructive international effort which the developing countries view as a significant step in meeting their needs.

IFAD's activities give priority to the needs of the poorer developing countries. During the 1978-83 period, approximately

66 percent of IFAD's loan commitments, i.e., about $1090 million, was provided to countries with per capita income of less than $300 (1976 dollars). IFAD has also increased its emphasis on Africa by providing total assistance of $305 for 32 projects in the period from 1981-1983 compared to $157 million for 16 projects in the period 1978-80.

In early 1982, member governments reached final agreement on the first replenishment covering the 1981-83 period. The United States pledged $180 million toward the $1.07 billion total. OECD members pledged $620 million and OPEC donors pledged $450 million to the replenishment, retaining approximately the initial funding shares between these groups. The full $180 million US contribution was authorized in FY 1978 but no funds were appropriated because of Congressional concerns about the financial burden-sharing arrangement between the OECD and OPEC contributors to the first replenishment and increases in IFAD staff. The concern about staffing was addressed during 1982 by IFAD agreement to a staff freeze and a study conducted by former US Comptroller General Elmer Staats which concluded that IFAD is a well managed institution operating with a minimum of staff. Congress appropriated $40 million for IFAD in FY 1983 ($24 million in the Continuing Resolution and $16 million in the FY 1983 Supplemental) and $50 million in the FY 1984 Continuing Resolution. Over half of the OPEC and OECD donors completed their payments to IFAD's first replenishment by October 1983. US payments under the first replenishment will be stretched out at least one year beyond the replenishment period as a result of US domestic budget constraints.

Twenty-six new projects totaling $278 million were approved during 1983 together with about $20 million in technical assistance grants. IFAD's lending program in 1983 was substantially less than its projected level of $435 million due to delays in the contributions of several member countries, including the United States.

IFAD calculates that these 26 new projects will benefit 1.2 million small farmers and landless families in 26 countries. Three of these projects (St. Lucia, Cameroon and Kenya) will focus on the needs of food-producing women heads of household. In all three countries, they account for almost half of the total beneficiaries.

IFAD's efforts to reach the poorest of the poor is in evidence in many of their newly approved projects. The fisheries project in the Congo is expected to benefit 11,000 farm families with an average income which is half the national average. The credit projects approved for Ethiopia, Swaziland, Thailand, Tonga, Pakistan and Panama have streamlined the

existing delivery system to meet the demand of the poorest clientele. These projects are designed to bring credit to the doorsteps of the small farmers and landless laborers. The 650 mobile credit officers of Pakistan are expected to cover 35,000 villages by the end of 1985 out of 45,000 in the country.

TABLE 1: Loans and grants provided by IFAD in the period 1978-83
(Amount expressed in US$ million)

	1978		1979		1980		1981		1982	1983	Total			
	(No.)	Amount	(No.)	Amount	(No.)	Amount	(No.)	Amount	(No.)	Amount	(No.)	Amount	(No.)	Amount
A. Loans*														
Africa	2	15.8	6	56.5	8	84.3	12	111.4	7	70.7	13	122.8	48	461.5
Asia	5	82.5	5	150.8	8	109.4	9	151.1	7	108.8	6	95.5	40	702.1
Latin America	2	9.3	5	39.1	5	60.5	7	57.8	5	56.4	4	21.4	28	244.5
Near East and North Africa			5	59.4	6	74.7	2	15.6	6	85.5	3	34.3	22	269.5
TOTAL LOANS	9	107.6	21	305.8	27	328.9	30	335.9	25	321.4	26	278.0	138	1,677.6
B. Grants				4.8		12.8		22.5		18.3		20.0		78.4
TOTAL LOANS AND GRANTS		107.6		311.4		341.7		358.4		339.7				1,756.0

* Loans approved in 1978 were denominated in US dollars, but all subsequent loans have been denominated in Special Drawing Rights (SDR). For loans approved from 1979 through 1982 which were denominated in SDR, the amounts in US dollars are calculated on the basis of the US dollar/SDR rate as at 31 December 1982, 1 SDR = US$ 1.10311. The 1983 loans are in US dollars on the basis of US$/SDR rates as at loan negotiations.

IV.B.2. THE ORGANIZATION OF AMERICAN STATES

Until the early 1960s the Organization of American States (OAS) functioned almost exclusively as a framework and forum to promote hemispheric solidarity in security (Rio Treaty) and political affairs, e.g., peacekeeping. Under the US initiative, the OAS began a new thrust to support regional development through cooperation between countries and sub-regions. OAS technical assistance programs have since become an important source of multilateral technical assistance to OAS member countries.

In two decades, the OAS has perfected a highly effective infrastructure including specialized personnel, Inter-American Centers for specialized training, a reservoir of experienced technical advisers from the hemisphere, a data ban comprising the results of earlier studies and research on development and extensive experience in project planning and administering technical assistance. This capability has become specially attuned to the regional needs and conditions and consequently is highly effective.

In 1983 the OAS completed a two-year reorganization which reduced overhead, including a 20 percent cut in personnel, and increased available funds for direct services. As a consequence, there will be an additional $3.5 million available in technical assistance in 1984 increasing the overall total to $68.5 million <u>without</u> any increase in the contributions of member countries.

The OAS concentrates on developing human and institutional resources to strengthen public and private infrastructure dedicated to development. To date the OAS has trained approximately 83,000 individuals, some 28,000 since 1970. Many of these OAS trainees now occupy key positions in public and private institutions engaged in various aspects of development. Others staff the Inter-American Centers set up for research, training, and extension services in such fields as land and water use, public administration, agricultural research, etc.

Other multilateral and bilateral donor agencies have come to recognize the technical capability of the OAS. Much of the current UNDP staff in Latin America received its training under OAS auspices; UNDP and UNEP rely increasingly on OAS as executing agent for activities in this hemisphere. In their respective fields of endeavor, OAS, UNDP, and UNEP have worked out a mutually complementary relationship with OAS mustering indigenous talents and UNDP and UNEP concentrating primarily on providing sectoral expertise and specialities that cannot be

found within the region. OAS is the prime mover in regional river basin economic development schemes which sometimes extend across several national frontiers; these projects have recently given increased emphasis to nutrition, education, and other social needs of the poor segments of the population located in these basins. The Pilcamayo River Basin project (OAS -- $75,000; UNDP -- $1,350,000; and $1,000,000 each from Bolivia, Paraguay, and Argentina) is illustrative of OAS efforts in this area.

The OAS mobilizes the entire Inter-American system behind its technical assistance projects. OAS feasibility studies and project development work have led to follow-up funding by the Inter-American Development Bank as well as other international financial institutions. The total spinoff has been estimated to draw on technical and other resources of the Inter-American Institute for Cooperation on Agriculture and the Pan American Health Organization for an integral approach to specific technical assistance goals. Coordination among the three organizations is greatly enhanced by the common language, common educational background of their staffs, and existence of mutually acceptable criteria for division of labor.

OAS expenditure for development purposes in 1983 amounted to $65.0 million, towards which the United States paid $40.6 million in voluntary and assessed contributions. The other member states contributed the major portion of the remainder; non-member countries, including Canada, Spain, and Germany, contributed $5 million. Although the US share was initially set at two-thirds of total funding, this share has been gradually declining as more developed members of the area, e.g., Brazil, Argentina, Mexico, and Venezuela make greater contributions. This trend towards fairer burden sharing has strengthened the common development efforts of member countries. Approximately 58 percent of expenditures go to technical assistance and support activities, with the remainder allocated to training, research, studies, and dissemination.

The Inter-American Institute for Cooperation in Agriculture (IICA), a specialized organization of the OAS whose antecedents go back to the early 1940s, has accumulated much experience and competence in training agronomists, researching tropical plants, fighting plant and animal diseases, and promoting food production. In 1983 it had a total budget of $35 million of which $18 million represented assessments on member countries and Canada (which is not a member of the OAS). The balance of $17 million comprised performance contracts with member and non-member countries, and public and private institutions. IICA, which originated from a US initiative, has proven its capacity to undertake both pilot and larger-scale projects to raise the level of agricultural production in the hemisphere.

IV.B.3. DEVELOPMENT ASSISTANCE COMMITTEE

The members of OECD's Development Assistance Committee (DAC) are together responsible for the major part, about 75 percent, of the total flow of official development assistance to developing countries.

The DAC itself is not an aid-giving agency and has no development fund of its own. Its main purpose is to stimulate a common effort in development assistance and to assess Member governments' policies, with particular respect to the volume, terms, conditions, geographical and sectoral distribution of their aid. It regularly reviews each Member's aid policies, and seeks to set quantitative and qualitative standards, and to find ways of improving the effectiveness of development assistance. The statistical system built up by the DAC is the primary source of information on financial flows to developing countries.

The DAC now has 18 Members: [Members of the DAC include:] Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland, United Kingdom, United States, and the Commission of the European Communities. The World Bank and the International Monetary Fund (IMF) attend DAC meetings as regular observers.

In 1982, all official and private resource flows from DAC countries amounted to $83.7 billion, or 1.15 per cent of DAC Members' combined GNP. Official Development Assistance (ODA), often referred to as aid, reached $27.9 billion, equivalent to 0.38 percent of DAC Members' combined GNP (see page 3). In real terms, DAC ODA in 1982 was 11 percent higher than in 1981, and almost 60 percent higher than in 1970.

Current priority concerns of the DAC, in addition to the central task of contributing to sustained development assistance efforts, are improved aid effectiveness through better coordination and adaptation of aid instruments and procedures. The DAC reviews the flow of multilateral aid and gives attention to aid problems in sectors of special importance for development, such as agriculture and energy.

Operation of the DAC

The work of the DAC is carried on mainly through meetings of the Committee and its three Working Parties, normally held at the OECD's Paris headquarters, or through special ad hoc meetings as required. DAC meetings are attended by senior

officials from donor countries' capitals, and once a year the Committee meets at High Level with ministers or other heads of aid agencies attending.

One of the DAC's most important activities is the series of meetings known as the Aid Reviews. At these meetings a Member government submits to detailed cross-examination by the rest of the Committee on its aid performance during the past year and on the prospects for the future. For each review, the country under examination circulates a memorandum, the OECD Secretariat makes a report, and a set of questions is prepared in liaison with two DAC Members, appointed in each case as "examiners". Communiques are issued after each review.

Every year, the Chairman of the DAC publishes a report on the Development cooperation efforts and policies of DAC Members. This report draws on the conclusions of the Aid Reviews and other DAC meetings, together with special reports and analyses prepared by the Secretariat.

DAC Annual Meetings

The Annual High-Level Meeting of the OECD Development Assistance Committee (DAC) was held in Paris in November 1983. This Ministerial meeting of aid donors surveyed prospects for development assistance, agreed to work towards improved coordination, adopted guiding principles on the role of Women in Development, and debated the issues on the commercialization of aid.

The participants did not dispute Secretariat forecast that ODA is likely to grow only slowly over the next two years. Emphasis was placed on needs of the poorer LDCs, particularly in sub-Saharan Africa. Donors affirmed that the current situation in many countries required flexible use of aid instruments. In many cases new projects had to be deferred in favor of maintenance and rehabilitation.

On coordination, there was broad agreement with the approach and suggestions contained in the Secretariat paper. Practical proposals, mostly from the United States, on ways to enhance effectiveness of Consultative Groups were widely endorsed. DAC members also agreed to encourage their in-country representatives to consider with the host LDC officials and donor colleagues the feasibility of designing improved local coordination mechanisms. Follow up on the new guidelines will be a major AID activity.

Guiding principles on Women in Development were adopted and the DAC was encouraged to undertake extensive work leading up

to the 1985 UN conference. While most members supported an enhanced status and role for the present WID correspondents group, some had reservations on this matter.

Discussion of the association of development and domestic economic objectives concentrated on the mixed credit issue. The United States expressed deep concern about the threat that growth of such financing posed to developmental use of ODA, specifically the shifts of assistance from the poorest nations to middle income countries. At the same time, some speakers stressed the positive role of private flows in promoting development. DAC was encouraged to pursue both subjects in its future work program.

Chapter IV. C.

UNITED STATES BILATERAL ECONOMIC ASSISTANCE

IV. C. 1. AGENCY FOR INTERNATIONAL DEVELOPMENT

Allocation of Bilateral Assistance

Integrated Budget Process.

Under the Reagan Administration, the procedure by which economic and development assistance is allocated to countries and regions has been substantially revised. The goal of the new procedure is better coordination of the various assistance programs which serve as instruments of US foreign policy in order to assure the best use of scarce assistance resources in support of that policy. Key elements of the new approach include:

-- explicit establishment of a foreign policy framework setting forth key objectives and analyzing the contribution of each foreign assistance program -- military, economic, development and food aid -- to the attainment of these objectives;

-- creation of an integrated budget process in which all available foreign assistance resources are allocated against the general foreign policy objectives and specific priorities in each prospective recipient country;

-- interagency review and debate of prospective aid levels, including scrutiny of the overall program by the Budget Review Board and the President to ensure that resources are directed to the highest priorities of foreign policy.

Using this new integrated budget procedure, the allocation of bilateral US foreign assistance may be discussed from a functional standpoint or from a regional standpoint.

Functional Allocation

Bilateral US economic assistance flows from four categories:

-- Development Assistance (DA) expands economic and social opportunity with programs in sectors that promote equitable eonomic growth.

-- The Economic Support Fund (ESF) promotes economic and political stability in countries or regions where the United States has significant security interests and determines that quick impact or sizeable financial commitments are useful to avert major economic or political crises and help secure peace.

-- The Food for Peace Program (PL 480) combats hunger, encourages development, and expands markets for US farmers.

-- The Housing Guaranty (HG) program secures non-appropriated funds, from US private capital markets, at close to market rates of interest, to improve housing for low income inhabitants of borrowing countries.

The amounts obligated under these budget categories in FY 1982, FY 1983, and FY 1984 are shown in Table 1.

US interests in a region or country provide the criteria for allocating all forms of assistance. But US country and regional interests seldom are singular. Assistance criteria can include:

-- Access to raw materials important to US industry.

-- The possibility of destabilizing conflict.

-- The presence of sizable US private investment.

-- The character of a country's overall relations to the United States.

-- A country's position on human rights.

-- The extent of a country's efforts to acquire nuclear weapons.

Additional, equally important criteria for the allocation of Development Assistance to a country are:

-- The country's need, especially as measured by per capita income, the availability of food, and access to minimum health care and education services.

-- A country's economic progress and prospects.

-- The country's commitment to policies that promote growth.

Table 1

($ millions)

	FY 1982 Actual	FY 1983 Actual	FY 1984 Appropriated
Development Assistance			
of which:			
Functional Accounts plus Sahel	1396.0	1441.4	1449.9
Economic Support Fund (ESF)	2770.3	2971.5	3047.9
Subtotal: AID	4166.3	4412.9	4497.8
PL 480 Food Aid (Titles I,II,III)	1416.6	1471.0	1522.0
Total Appropriated Funds	5582.9	5883.9	6019.8
Housing Guaranty (HG) Program a/	142.4	132.5	150.0

a/ US Government guaranties rather than expenditures of appropriated funds.

The country allocation of the Economic Support Fund is more related to US political and security concerns. Financial assistance is often given to maintain or achieve political and economic stablility of governments which are of concern to the United States. ESF resources can help mitigate balance of payments crises in countries especially important to the United States - Jamaica, Pakistan and Kenya for example. The largest ESF allocations are made to Egypt and Israel to carry out US commitments to achieve peace in the Middle East.

As shown in Table 2, in FY 1983 the United States allocated to the lower income (IDA - eligible) development countries 56.5 percent of all funds (DA and ESF) for bilateral assistance programs. Twenty five of the 38 nations on the UN "least developed" list account for 18.7 percent of all US bilateral assistance programs. Some higher income developing countries, already graduated from AID's assistance, such as Brazil, Nigeria and Korea, may receive modest amounts of development assistance to promote greater scientific and technical interaction between them and less economically progressive developing countries.

Table 2

US A.I.D. FUNCTIONAL DEVELOPMENT ASSISTANCE,
SAHEL AND ESF PROGRAMS
BY ECONOMIC LEVEL OF RECIPIENT COUNTRY
FY 1982 - 1984
($ millions)

GNP/CAP.	FISCAL YEAR	TOTAL	DA	ESF
Greater than $796	1982	1,610.2	154.2	1,456.0
	1983	1,648.9	164.0	1,484.9
	1984	1,658.4	156.3	1,502.1
Between $406 and $795	1982	1,361.1	315.6	1,045.5
	1983	1,435.1	348.8	1,086.3
	1984	1,418.5	343.8	1,074.7
Between $0 and $405	1982	649.7	426.9	222.8
	1983	740.4	417.1	323.3
	1984	812.8	409.8	403.0
Interregional and and Regional Programs	1982	545.7	499.8	45.9
	1983	588.5	511.5	77.0
	1984	608.1	540.0	68.1
TOTAL	1982	4,166.7	1,396.5	2,770.2
	1983	4,412.9	1,441.4	2,971.5
	1984	4,497.8	1,449.9	3,047.9

Notes:

The above data includes Israel, Egypt, and Turkey. (The allocation of funds to Israel is $806 million, $785 million and $910 million in FY's 82, 83 and 84 respectively. The corresponding figures for Egypt are $771 million, $750 million and $750 million for Turkey, $300 million, $285 million and $175 million.) Israel and Turkey are in the top group and Egypt is in the next group in terms of GNP/CAP.

Comparable data for for PL 480 Titles I and II were not available for FY 1984 at time of writing because contingency funds and reserves had not yet been allocated to countries. Title I authority includes Title III.

At the time the legislation was enacted, the poverty criterion for eligibility for credits from the International Development Association was per capita GNP of $795 in 1982 dollars.

The Sahel Development Regional Funds are included with bilateral allocations to the least developed countries for purposes of this table. All eight of the Sahel countries have per capita incomes of $500 or less. Six of the eight are least developed countries (LLDCs).

The terms of US assistance also emphasize our support of the poorer developing countries. The least developed receive nearly all assistance as grants. Those countries which are economically better off, but nevertheless still poor, receive a balanced mix of concessional loans and grants. Under present legislation, the relation between per capita income and the maturity of development assistance loans is:

Per Capita Income (1981 $)	Maturity of Loans (years)
less than 795	40
795 - 1284	25
1285 or more	20

PL 480 food aid is provided either directly to developing countries on a credit basis for sale in their domestic markets, or on a grant basis to either governments or private voluntary agencies for feeding programs that directly benefit needy people. The sales program is based on countries' requirements for imported food which exceed their ability to finance commercially. In considering PL 480 sales, the United States is concerned with each country's general economic situation, and its policy environment. For countries meeting IDA-eligible requirements, "loan forgiveness" arrangements can be extended to finance mutually agreed development purposes. In the grant food aid program, the United States donates food for disaster relief, to feed malnourished children, for food-for-work projects, and other programs that provide food to the needy.

The Housing Guaranty program is directed mostly toward countries that also receive Development Assistance. The program finances, at near-commercial terms, low-cost shelter. It is a program with long experience dealing with the private sector in the developing world.

Regional and Functional Allocation of Development Assistance

The regional allocation of Development Assistance, ESF and PL 480 resulting from the criteria described above is shown in Table 3 for FY 1982 and FY 1983. Of Development Assistance directly allocated by country, the densely populated countries of Asia received the largest share, followed by Africa, Latin America and the Caribbean, and the Near East, in that order. The Near East, however, absorbed well over half of ESF in FY 1983, with the bulk going to Egypt ($750 million) and Israel ($785 million). Of the PL 480 total, the Near East accounted for 21.4 percent and Asia for 21.2 percent.

The allocation by functional account is shown on Table 4 and reflects the continued emphasis on the agricultural, rural development and nutrition account. Overall, the distribution by functional accounts is essentially unchanged.

TABLE 3

A.I.D. AND PL 480 PROGRAMS
BY REGION
FY 1982 (ACTUAL) AND FY 1983 (ESTIMATE)

Budget Account and Region	$ Million FY 1982	$ Million FY 1983	Percent FY 1982	Percent FY 1983
A. Development Assistance (Functional Accounts plus Sahel):				
Africa (Includes Sahel Program)	328.9	313.2	23.6	21.7
Asia	400.3	382.3	28.6	26.5
Latin America & Caribbean a/	280.8	325.2	20.1	22.5
Near East	39.4	42.6	2.8	3.0
Inter-Regional	346.6	378.1	24.8	26.3
Total	1,396.0	1,441.4	100.0	100.0
B. Economic Support Fund:				
Africa	294.8	286.1	10.6	7.4
Asia	155.0	255.8	5.6	1.5
Latin America & Caribbean	328.9	500.3	11.9	6.5
Near East	1,991.1	1,929.0	71.9	84.6
Inter-Regional	0.5	0.2	-	-
Total	2,770.3	2,971.4	100.0	100.0
C. PL 480 (Food for Peace)				
Africa	186.7	206.2	13.1	14.0
Asia	311.8	311.9	22.0	21.2
Latin America & Caribbean	175.7	248.7	12.4	17.0
Near East	352.6	314.8	24.9	21.4
Inter-Regional b/	389.7	389.4	27.5	26.4
Total c/	1,416.5	1,471.0	100.0	100.0
D. Housing Guaranty Program d/				
Africa (incl. Sahel Program)	40.4	30.0	28.4	22.6
Asia	-	20.0	-	15.1
Latin America & Caribbean	87.0	82.5	61.1	62.2
Near East	15.0	-	10.5	-
Total	142.4	132.5	100.0	100.0

a/ Includes $6.3 Million Sahel Program (Andean Relief)
b/ Includes Europe, World Food Program Emergency Reserve, stock adjustment for Title I, and ocean transportation for Title II.
c/ Before adjustments for: (a) 3.5 percent prepayment on commodities by recipient countries under Title I; (b) prior year obligations financed during current year and current year obligations financed in succeeding year.
d/ Guarantees only; not appropriated funds.

TABLE 4

A.I.D. AND PL 480 PROGRAMS
DEVELOPMENT ASSISTANCE BY FUNCTIONAL ACCOUNT AND ESF
FY 1982 (ACTUAL) AND FY 1983 (ESTIMATE)

Functional Account	$ Million		Percent	
	FY 1982	FY 1983	FY 1982	FY 1983
Agriculture, rural development and nutrition	709.1	725.8	38.3	37.3
Population Planning	211.1	214.9	11.4	11.0
Health	134.4	139.5	7.3	7.2
Education, human resources dev.	103.9	114.2	5.6	5.9
Energy, PVOs, selected development activities, science and technology	143.7	155.0	7.8	8.0
Subtotal A: Functional Accounts	1,302.2	1,349.4	70.3	69.4
Sahel Development Program	93.8	92.0	5.1	4.7
Subtotal B: Functional accounts plus Sahel	1,396.0	1,441.4	75.3	74.1
Other a/	457.8	504.7	24.7	25.9
Subtotal: Development Assistance	1,853.8	1,946.1	100.0	100.0
Development Assistance	1,853.8	1,946.1	30.7	30.5
Economic Support Fund (ESF)	2,770.3	2,971.5	45.9	46.5
Total AID	4,624.1	4,917.6	76.5	77.0
PL 480, Titles I, II, III (Food for Peace)	1,416.6	1,471.0	23.4	23.0
Total Appropriated funds	6,040.7	6,388.6	100.0	100.0

a/ American Schools and Hospitals Abroad; International Disaster Assistance; Operating Expenses; Foreign Service Retirement Fund.

AID Programs and Emphases

In addition to the major emphases, sectoral priorities, and significant developments in 1983, discussed in Chapter III.A., the AID program continues to emphasize certain major considerations of great importance to the process of development.

Human Rights

Human rights are at the core of the American experience. This nation was created in response to a specific political program defined by conceptions of human liberty. A central aim of US foreign policy is to promote American ideals and respect for human rights throughout the world. AID supports unequivocally this policy by emphasizing the integral part human rights has in the overall AID program. More specifically, AID activities reflect the US understanding that civil and political rights cannot be separated from economic policies and economic development.

Section 116(e) of the Foreign Assistance Act authorizes the expenditure of not less than $3 million "for studies to identify and for openly carrying out, programs and activities which encourage or promote increased adherence to political and civil rights..." No such funds may be used directly or indirectly to influence the outcome of any election in any country. This positive or development side of human rights activities of AID is an expressed recognition of the US understanding that civil and political rights cannot be separated from economic policies and economic development. Under this section AID sponsors specific projects to stimulate and encourage an awareness of the principle of civil and political rights in developing countries, of stimulating adherence to the rule of law, and of supporting development of democratic principles and institutions which promote human rights.

In addition to specific projects funded under Section 116(e), AID attempts to integrate its concern for civil and political rights in its other programs and projects. Thus, AID has an active women in development program designed to promote integration of women into the economic activities of recipient countries. Also, AID has an active private sector program which attempts to stimulate the activities of the indigenous private sector, through economic activities, cooperatives, and indigenous private and voluntary organizations, in recognition that the development of a strong, non-governmental sector, is critical for the long-term preservation of civil and political rights in a society. These principles are implemented by AID in its normal project design and review process.

Women in Development

The Agency for International Development's policy on women in development is derived from the 1973 Percy Amendment (Section 113) to the Foreign Assistance Act of 1961, as amended. In 1977 this section was restated largely to recognize women's roles in "economic production, family support, and the overall development process." It further directed that the United States government's bilateral assistance be administered "so as to give particular attention to those programs, projects, and activities which tend to integrate women into the national economies of developing countries."

In addition, a portion of assistance funds was designated to be used "primarily to support activities which will increase the economic productivity and income earning capacity of women." Increasingly, Congressional concern has been focused on the issue of how the Women in Development's program can be institutionalized within the Agency. The Office of Women in Development's (PPC/WID's) 1982 Report to Congress provided updated information on the status of women in development activities at the mission level.

The Agency's WID Policy Paper affirms AID's effort to undertake an effective development strategy which promotes economic development. The responsibility for implementing AID's WID policy rests with all of AID's offices and programs, at all levels of decision-making. Implementation of this policy must be understood to be an important qualitative aspect of AID's program, one which is crucial to the achievement of the Agency's goals. It is not a concern which can be addressed adequately in any one sector, or by any single office.

The WID program is in a state of transition; from an emphasis on the advocacy of women-specific projects funded and managed by PPC/WID, to a strategy and implementation plan designed to facilitate the inclusion of women into the Agency's projects. The decision to move progressively away from separate women's projects is based on the Agency's mandate to integrate women into mainstream development activities.

AID Policy. The Office of Women in Development's program directives are based on the concept of WID as set forth by the Congress and AID's own policy on women in development. This policy will continue to be a critical element in the Agency's overall development strategy. In order to maintain attention to the complex issues of women at both the program and project level, a central and coordinating role will be played by the Office of Women in Development. Specifically, the Office will direct its resources to the following development goals:

-- overall country programs and individual project designs which reflect the distinct roles and functions of LDC women as they relate to project implementation;

-- strategies for explicitly benefiting women and girls in all sectors within countries, and in all projects within sectors which are developed and implemented as an integral part of AID's work;

-- sex-disaggregated data collection, gender specific social soundness and economic analyses, monitoring and evaluation;

-- programs and projects where special efforts are required to reach women due to cultural conditions or where women's groups provide a particularly advantageous vehicle for AID to address the role of women in a particular program or project;

-- funding LDC women for training, particularly in the areas of management, administration, and marketing instruction; and

-- supporting research in areas where adequate knowledge of gender-roles in relation to project design and implementation are lacking.

Major Activities in 1983. During 1983, the WID Office continued to provide technical assistance to AID missions in the field. For example: in conjunction with the Office's mandate on incorporating women into the national economies of assisted countries, activities are being supported to provide access for women to training programs, especially in the areas of management, finance, and administration. One such activity is the International Management Institute's (IMI) Multinational Marketing Management program. This program provides an opportunity for groups of Third World women from the private sector to undertake the equivalent of a full year of US graduate business education in marketing, with special attention given to finance, strategic planning, and decision analysis disciplines.

The Office also continues to fund case studies of action-oriented research projects in order to build upon previous experience and to enhance the Agency-wide integration of women. To support the effort, the Harvard Institute for International Development and the Harvard Business School developed a series of case studies based on AID's projects in four geographic regions and in sectors of special importance to women.

-- An example of an on-going women in development project, which emphasizes income-generation and private sector activities, is the Equity Policy Center's (EPOC) Study of Street Foods. The project focused on researching food processing and sale as a basis of income-generation for women; it now contains marketing and nutritional components.

-- The WID Office continues to support WID activities at Title XII universities and at such regional consortia as Midwest Universities Consortium for International Activities (MUCIA), Southeast Consortium for International Development (SECID), and the Consortium for International Development (CID). These activities have also established the basis for a cooperative effort between the WID office and BIFAD to integrate women into research projects, develop research agenda, and utilize women in development expertise in the Title XII contracting process.

Related WID Activities. The WID Data Project at the Bureau of the Census terminates January 31, 1984. Four regional handbooks will provide AID with country data disaggregated by sex, age and rural/urban status. This information will be of assistance in formulating country development strategy statements, project papers and in stimulating new research outside of AID.

International Initiatives. The WID Office has taken the lead in bringing the OECD donor agencies together to discuss policies and concerns relating to women in development. Discussion topics have included improvement in communications between donor representatives, institutionalizing host country women's organizations and the integration of women's components into major development projects. Most recently, guiding principles on the role of women's development, were adopted by the Development Assistance Committee in November 1983.

Evaluation

The AID evaluation system is designed to meet two basic Agency needs for evaluative information: Management needs information during the course of project or program implementation, and planners need predictive information concerning the types of projects and programs that succeed or fail, and the factors that explain their performance.

To provide management with the information it needs during the implementation of a project or program, AID has a decentralized evaluation system. Designed and installed in the early 1970's, it now covers all types of Agency projects in all overseas Missions as well as in Washington. Evaluation reports

are submitted to Washington; these reports are then abstracted and entered into AID's automated project data base, which in turn makes them available to program and project designers.

In the mid-1970's AID recognized the need for more summative evaluations that define the impact of AID projects and examine the degree to which they are sustained after AID assistance is terminated. In 1978, the Office of Evaluation was established within the Bureau for Program and Policy Coordination. Beginning in 1979, the Agency instituted a program of "impact evaluations", conducted by AID professionals who have no prior connection with the projects they evaluate, but whose knowledge of the Agency and of economic development makes them uniquely capable of assessing both the impact and the reasons why projects succeed or fail. It was hoped that such an approach would make it more likely for the findings of evaluations to be absorbed by the Agency through both its formal and informal channels of communication. This appears to have been the case: there is a clear correlation between staff involvement in the evaluation process and the propensity to utilize evaluation findings.

Forty-eight evaluations have now been or are being published in the impact evaluation program, covering AID projects in ten sectors: roads, rural electrification, potable water, irrigation, health services, education, area development, agricultural research, small scale enterprises, housing investment guarantees and PL 480 Title I. Further work is currently under way in area development, agricultural services, and the private sector. An additional forty-six documents--18 special studies, 18 discussion papers and 10 evaluation reports have been published on a broad array of methodological guidance and subjects, widely distributed to the US Congress, AID Missions, AID Washington offices and to other donors and developing countries, as well as the academic community.

Evaluation work has now been completed on several sectors, including Range Management and Pastoralism (1979), Rural Roads (1980), Rural Electrification (1981), Community Water Supply (1982), Education (1982), Agricultural research (1982), Irrigation (1983) and PL 480 Title I (1983).

Evaluation programs are effective only if they result in positive changes. Findings and recommendations of AID's impact evaluations have met a high rate of acceptance within the Agency, as in the Sine-Saloum Health Project in Senegal, the Lam Nam Oon irrigation project in Thailand, the CARE water project in Tunisia, and the West African Entente Fund Enterprise project. Beyond the Agency, AID's impact evaluations are being used by host country planners and managers to make decisions about when and whether to expand

their own programs, as in the examples of Sudan's Rahad area development scheme, Thailand's community water system and Colombia's labor-intensive road program. Most important, perhaps, is that over 200 AID officers (in addition to other US and host country personnel) have had the opportunity to analyze the long-term development impact of AID projects, and, through that process, learn valuable lessons which they apply in their own areas.

Capital Saving Technology

Equipment whose use is economic when prevailing average wage rates are $8 per hour and annual interest rates oscillate around 10 percent may not be economic when wages are much lower and interest rates are much higher. Naturally, factor prices relate (or should relate) to the factor endowment of an economy. Given that factor endowments in developing countries differ from the factor endowments in developed countries, it follows that technologies which are appropriate in the former set of countries may not be appropriate for the latter. As capital is a scarce resource in poor countries, a good case can be made for developing in them efficient technologies which are capital saving. It is for these reasons that AID has an interest in the generation and diffusion of adequate capital saving technologies in developing countries.

Capital saving technologies of interest to AID are tools, production processes, and delivery systems that use relatively little capital (e.g., per workplace created, per beneficiary reached) and that:

-- are compatible with the local cultural, economic, environmental, political, and social context in which they are imbedded and with which they interact;

-- involve the local community or are otherwise physically and financially accessible to the poor;

-- can be maintained and repaired by relying on locally available labor skills, spare parts and organizational capacity;

-- are widely replicable; and

-- are economically efficient.

AID supports the development and use of appropriate technologies in several ways. First of all, the potential for increasing employment and income among the poor is a factor that receives considerable weight in the project evaluation process. Accordingly, a project which uses more local labor

and less capital goods without substantially increasing project costs or entailing a loss in output quality is to be preferred to alternative projects of a more capital intensive nature.

Secondly, AID stimulates the adoption of appropriate technology by:

-- encouraging the institutionalization of processes for the generation of new technologies.

-- allocating resources to solving management, marketing and related problems of generating new technologies.

-- helping to make more efficient and more competitive the markets that diffuse technologies in developing countries.

-- improving the capacity of these countries to turn technical knowledge to commercial advantage.

Another important way in which AID contributes to the generation and dissemination of adequate technologies for developing countries is through its support to A.T. International (ATI), a private non-profit institution almost entirely funded by AID, which engages in the promotion and dissemination of appropriate technology in developing countries.

Environmental Protection, Natural Resources Management and Forestry

AID's long-term development policies on natural resources management, forestry, and environmental protection continue to focus on:

-- assisting developing countries build the institutional capacity and scientific infrastructure required for identifying, assessing and dealing with their critical environmental and natural resources problems;

-- providing assistance to developing country governments for programs addressing natural resources management problems;

-- ensuring the environmental soundness of AID assistance programs and projects; and

-- promoting environmentally sound development projects funded by multilateral and other bilateral development assistance funding organizations.

The nature and urgency of a wide range of environmental protection and natural resources management problems that

profoundly influence the success of development efforts have been defined and widely publicized.

Often noted are the following essential facts:

-- The earth's capacity to support its people with food, fuel, fiber and other necessities of life is being seriously reduced by the enormous amount of topsoil lost by erosion every year due to deforestation and poor land management.

-- Millions of people in developing countries are destroying the resources necessary for their own future economic survival, by stripping the land of trees and shrubs for agriculture, fuel and by burning dung and crop residues badly needed to regenerate croplands. (See section III.A.3.)

AID's assistance in forestry, environment and natural resources is shown by Table 5 for the four principal environmentally related areas. The level requested for FY 84 is roughly the same amount as that for FY 83. The fluctuations in levels are due to a few large projects that skew the figures from year to year. This program reflects the policies stated in the Policy Determinations on Environment and Forestry that were released by AID in 1983.

AID's attention to the problems and challenges of tropical deforestation and natural resource degradation is steadily increasing. Over the past two years, for example, the Asia Bureau programs have focused on natural resource management to the extent that virtually every major country program in Asia has one or more projects that address the problem of how to improve the management of natural resources, especially wood resources. Some examples include:

-- rural wood lot and tree farming in India, Thailand and Sri Lanka

-- wood energy production schemes in the Philippines

-- reforestation of denuded watersheds in Sri Lanka and Nepal

-- establishment of wildlife preserves in the Mahaweli region of Sri Lanka

-- the growing of soil stabilizing grasses in Indonesia

-- forestry planning and development in Pakistan

Table 5

Funding for Projects or Project Components
Forestry, Environment and Natural Resources
(in thousands of dollars)

	FY 81 Actual	FY 82 Actual	FY 83 (OYB) Estimate	FY 84 Request
All Bureau Total				
Institution Building	21,577	33,004	63,952	74,077
Information/ Education	6,017	5,925	3,962	4,334
Conservation/ Land Management	54,685	50,930	26,048	23,016
Vegetative Cover	32,943	60,783	29,933	17,479
Totals	115,222	150,642	123,695	118,906

AID's centrally funded program in forestry concentrates almost entirely on providing technical support to overseas Missions and training for natural resource planners, managers and technicians in developing countries. Individual bureaus and missions concentrate on activities in education and training, improved country policies, institution building, technology transfer, baseline data collection, range and water management, reforestation and fuelwood projects.

In the last year the Agency has:

-- disseminated new information on how the problems of forest and natural resource use related to the wider range of development problems; and

-- continued to bolster its expertise through new and continuing arrangements with the Forest Service, the Peace Corps, and the Department of the Interior, as well as with voluntary agencies, universities and regional organizations.

Private Voluntary Organizations

Private Voluntary Organizations (PVOs) and AID work together in a variety of international development assistance programs. AID and PVOs share the fundamental objectives of assisting people in LDCs develop their own skills and capabilities to address their development problems, and of evolving democratic institutions that will enhance their participation in these development efforts. AID is committed to jointly pursing international programs with PVOs in disaster relief, food distribution, operation of overseas schools and hospitals, and development assistance in small housing development, primary health care, rural technology, non-formal education and skills transfer programs. Foreign aid legislation envisions a dual role for PVOs as independent development agents with their own programs and also as intermediaries for AID. The present strategy, as described in effectiveness of scarce resources in the developing countries by insuring that all AID-funded programs, including those of the PVOs, address that particular country's development priorities and needs.

In FY 1983, AID continued its active support for collaboration with PVOs. In addition to encouraging the active role of several of the larger PVOs in the distribution of PL 480 Title II food commodities, the Agency has committed over $200 million in grants and contracts to PVOs including several family planning organizations, labor institutes, cooperatives and some 70 voluntary agencies whose field programs coincide with AID's overall priorities.

The new directions in AID entail, among other things, more emphasis on the development of local private voluntary organizations which are indigenous or national to a specific developing country. AID will put greater stress on direct support to such organizations; and will encourage U.S. PVOs to themselves place greater emphasis on strengthening their indigenous counterparts in the developing countries.

The Agency expects to continue its active support for those private voluntary programs which promise effective development results and which leverage financial and technical resources from the American private sector.

Housing Guaranty Program

The Housing Guaranty program was developed in the early 1970s as part of the US Foreign Assistance Program to respond to the enormous and rapidly mounting worldwide shortage of adequate shelter, particularly in urban areas of developing countries. The program is AID's principal instrument for helping developing nations address this problem. It is a unique activity in which funds from the US private sector provide long-term financing for low-income shelter and urban upgrading programs in developing countries. The US Government underwrites these transactions through a full guaranty that compensates US lenders for losses. Interest rates to lenders are established by AID and reflect the current cost of money in the US mortgage market. AID charges a fee for its guaranty.

The objectives of the Housing Guaranty Program are:

-- to assist developing countries in the development and implementation of projects designed to demonstrate the feasibility and desirability of realistic, affordable, unsubsidized shelter within the financial ability of the people earning less than a medium income in a given developing country;

-- to assist developing countries in the creation, development and strengthening of housing and financing institutions with an appropriate division of responsibility between the public and private sector;

-- to develop and strengthen the institutional and management capabilities of developing countries in responding to shelter and community services needs of the poor majority of its people;

-- to encourage use of capital saving technologies, labor intensive methods and community participation to provide shelter and community facilities utilizing resources from the Housing Guaranty Program and relying on the private sector, through self-help and local contractors, for the bulk of construction activities.

The Housing Guaranty Program finances the following kinds of shelter solutions for families with below median incomes:

-- slum and squatter settlement upgrading, including provision of potable water, sewage disposal systems, electricity, roads, and drainage, to be complemented by home improvement and land tenure loans to slum dwellers;

-- sites and services, including preparation of vacant land for productive shelter use through lot division and installation of water lines, sewage disposal systems, roads and drainage. This is followed by self-help home construction by low income buyers of the lots. This type of program may include training programs and building materials loans for self-help builders and small scale contractors;

-- core housing, involving basically a sites and services approach with the addition of a rudimentary housing shell (typically including a bathroom and a small multi-purpose living area) on each lot designed to be improved and expanded by the owner. Building materials loans may be provided;

-- low cost housing units; and

-- community facilities and services (schools, health clinics, markets, job skill training services, etc.) in support of shelter projects.

Projects are designed to assist the participating institutions to define and clarify national housing policies, and to strengthen their capacity to plan, finance, implement, and service housing projects for the poor. Self-sufficient programs which emphasize cost recovery and limited subsidies are featured.

The Housing Guaranty Program is administered by AID's Office of Housing and Urban Development in the Bureau of Private Enterprise, which also provides technical assistance and services in a broad range of shelter- and urban-related issues relevant to many developing nations. AID plans to maintain the Housing Guaranty Program at the levels authorized during the past several years. Projects will continue to: provide low cost shelter and related urban services to low income families primarily in urban areas of developing countries; provide housing policy advice to governments of developing countries;

and, provide technical assistance for institution building and for assisting countries prepare medium- to long-term shelter and urban development plans.

By the end of FY 1983, the Housing Guaranty Program authorizations reached a level of approximately $1.7 billion.

Board for International Food and Agricultural Development (BIFAD)

Title XII of the Foreign Assistance Act directs AID to make more extensive use of US land grant, sea grant and other qualified colleges and universities to carry out foreign assistance programs. The interest of developing countries in Title XII projects, as reflected in AID Mission requests, has grown continuously; and in FY 1984 it is expected that Title XII programs will account for approximately $400 million of institution-building activities in agriculture, rural development and nutrition.

In 1975 Congress created the Board of International Food and Agricultural Development (BIFAD) to advise AID officials and participate in the formulation of agricultural development policy, the design of projects and the use of the US agricultural universities in AID programs. The legislation provides, that whenever practical, Title XII activities should be built upon existing programs and institutions, including the universities and the Departments of Agriculture and Commerce. The legislation also provided for "Strengthening Programs" to enhance U.S. university capacities for participating in AID programs overseas; and "Collaborative Research Support Programs" to enable U.S. institutions and those from poorer lands to work together on projects to benefit both less developed countries and U.S. agriculture. BIFAD helped to launch these programs through development of guidelines, and provision for university participation in program reviews. BIFAD also fostered university collaboration in design, and flexibility in implementation, of country projects.

BIFAD's current agenda is governed by a "Joint Resolution", signed by AID Administrator McPherson and then BIFAD Chairman Clifton R. Wharton, Jr. in April 1981. It defines the primary mission of BIFAD as:

" to help AID to mobilize and utilize the faculty and institutional resources of eligible universities, and to advise and assist AID to develop and implement the components of the Title XII program."

In pursuit of this mission, BIFAD devotes a major share of its staff resources in identifying the most qualified

individuals and university contractors required to meet AID project needs. BIFAD also completed a study on the refinements needed in the selection process to assume equitable treatment and understanding on the part of all parties. An earlier study on incentives for university participation in AID projects overseas, along with a BIFAD analysis of progress made and outstanding problems, has been shared with the 140 Title XII universities. Regional seminars have provided AID and more than fifty universities with the opportunity to exchange perspectives about AID policies and programs, modes for university involvement, and problems in working together. BIFAD has developed a program for better predeparture training of university staff for overseas work.

New ways to strengthen the AID-university partnership: "Memoranda of Understanding" commit AID and particular universities to long-term relationships. Joint enterprise arrangements include smaller institutions in AID programs. "Technical Support to Missions" provide university expertise to analyze country needs, or to develop, design, and evaluate projects. The Joint Career Corps provides for assignments of university faculty to AID missions alternating with periods at their home campuses.

BIFAD studies, and dialogue with AID, have provided policy advice on such matters as: agricultural research centers; middle-income countries; and regional and sector plans.

Selected Major Changes in Agency Organizational Management

Significant efforts are still underway to improve the management of the Agency. The following is particularly noteworthy:

-- Implementation - a Task Force of experienced project and program managers worked throughout the year to recommend improvements in the project development and implementation process. Among other things, the Task Force identified shortages in skilled commodity and contract management officers. In response, the Agency is shifting personnel resources to these areas within its overall personnel ceilings. In addition, mission management officers who have been given special inservice training on commodity procurement and contracting have been delegated limited authority to carry out these functions.

-- The Task Force has also recommended greater training of project managers. In this regard, the Agency is now carrying out an intensive program to train project managers in the techniques of project implementation, the management of contracts and procurement. It is expected that all

professional staff responsible for managing projects will have participated in this training for 1986.

-- Finally, the Task Force has recommended a more streamlined program and project review process which supports the decentralization of management decisions instituted during the past two years. These recommendations will be carefully reviewed during 1984 through the evaluation of an experimental introduction of the reform in three country programs in Asia. Essentially, the experimental program increases the interaction between the Asia Bureau and the three missions in developing the missions' three year strategy. It also stresses AID/W's role in the review of policy and lessons learned while increasing the mission's responsibility for technical design, appraisal and implementation.

IV.C.2. ECONOMIC SUPPORT FUND

The Economic Support Fund is a flexible assistance tool to promote the economic or political stability of countries in which the United States has strong security and foreign policy interests.

Although administered by AID and the Department of State in generally the same manner as Development Assistance, ESF resources tend to be used to address a broader range of problems. ESF can be used to provide immediate balance of payments support (assistance through Commodity Import Programs or cash grants to finance general imports rather than specific projects), to finance infrastructure and other capital projects necessary for long-term economic development, or to support smaller projects that more directly address the basic human needs of the poor.

The programming of Economic Support Funds is often prompted by political or security consideration but, as required by Congress, funds are directed toward basic human needs and development goals to the maximum extent possible. Even balance-of-payments support can have a powerful, if indirect, effect on the welfare of the poor. Countries forced to direct large percentages of their domestic expenditures to security concerns often lack the resources to support vital economic development programs. Imports of raw materials, manufacturing and agricultural inputs, and other essential needs can help to sustain the broad level of economic activity and growth and the political stability on which much employment throughout these economies depends. In the provision of ESF there must be an effort to assure that it be consistent with developmental goals whenever possible, even though the assistance may have been motivated by security and political considerations.

Selected Major Developments in 1983

For FY 1983, $2.971 billion was obligated under the Economic Support Fund. The bulk of those funds were provided in the Middle East to support this country's continuing efforts to further the peace process. This included a cash transfer of $785 million to Israel to address inflation and balance-of-payments problems. It also included $750 million of both project and commodity assistance for Egypt to encourage long-term development activities to take place while at the same time permitting large-scale import programs necessary to maintain high growth rates and allow the Egyptian people to experience tangible benefits from the peace process.

Other important recipients in FY 1983 included Turkey ($285 million), struggling to overcome serious economic problems; Pakistan ($200 million), to bolster that nation's stability and security in the face of the Soviet threat posed through Afghanistan; the nations of Southern Africa ($99.1 million), where ESF is used to facilitate the peaceful transition to majority rule; the Sudan ($82 million), to assist in the serious economic crisis facing the country; the Philippines ($50 million); and several Latin American and Caribbean nations (in particular Jamaica - $59 million, El Salvador - $140 million, Honduras - $56 million and Costa Rica - $157 million). Liberia also received $32 million in FY 1983 to help in overall development efforts.

Many of the same themes are expected to continue in FY 1984, particularly emphasis upon Israel and Egypt, Turkey, several African and Latin American and Caribbean nations and Pakistan.

IV.C.3. PUBLIC LAW 480 AND FOOD AID

Under the Public Law 480 (PL 480) program, the United States provides over 60 percent of total food aid received by developing countries. In addition to combating hunger and malnutrition, the program is designed to encourage economic development, support US foreign policy goals, and expand the market for US agricultural exports. The Department of Agriculture and the Agency for International Development share primary responsibility for administering the program. PL 480 resources are used in both bilateral and multilateral programs. Bilateral programs include the following:

- -- Title I provides for long-term, low interest loans to friendly developing countries to help meet chronic or unexpected food shortages, on condition that the countries themselves undertake self-help measures to improve the efficiency of agricultural production, marketing, and distribution.

- -- Title II provides for the donations of food commodities to US voluntary agencies that sponsor feeding programs targeted at the needy, particularly malnourished children, and small scale "food for work" development programs. Also, it provides for grant food aid emergency and refugee feeding programs through US voluntary agencies or directly to the affected government.

- -- Title III (discussed in greater detail below) provides for multi-year commitments of food aid and forgiveness of Title I loans to low-income developing countries, provided a specific development program is satisfactorily carried out.

The multilateral program to which PL 480 contributes is the World Food Program (WFP), established with US encouragement by the United Nations and the Food and Agriculture Organization (FAO) in 1972. Initially, the United States contributed 50 percent of WFP's resources. For calendar years 1983 and 1984, the United States has pledged $250 million worth of food and transportation costs ($200 million financed under Title II of PL 480) toward WFP's target of $1 billion.

Background

PL 480 was enacted in 1954, primarily as a means for disposing of US agricultural surpluses. In the early 1960s, PL 480-financed shipments comprised over 23 percent of the value of total US agricultural exports. This has now dwindled to less than 4 percent. In 1966, the legislation was revised to

shift the emphasis from surplus disposal to assisting developing countries to improve their own agricultural production and economic performance. In general, commmodities are not available for shipment under PL 480 if these shipments would reduce the amount needed for US domestic requirements, adequate carryover of stocks, and anticipated commercial exports. However, the US national grain reserve includes four million metric tons of wheat, of which 300,000 tons may be used for disaster relief in any one year regardless of US domestic supply conditions. Specific provisions of the current legislation include:

-- A requirement that at least 75 percent of food aid provided under Title I be allocated initially to countries whose per capita income is at or below the eligibility level of the International Development Association (IDA) -- $805 in 1982.

-- A requirement that 15 percent of the amount available for Title I programs be conducted under authority of Title III. Title III provides multiyear supply agreements of up to five years with "IDA eligible" countries prepared to undertake specific actions to address the constraints to equitable development, particularly in the food and agriculture sector. The value of the PL 480 commodities or local currency sales proceeds used for agreed development purposes may be applied against the country's repayment obligation to the United States -- i.e., the United States may forgive the loan.

-- Special incentives may be offered under the Title III program to the least developed countries. These include US financing of ocean freight and, in the case of landlocked countries, delivery to points of entry.

-- A requirement that a minimum quantity of 1.7 million metric tons of agricultural commodities will be provided under Title II of which not less than 1.2 million metric tons shall be for regular programs of voluntary organizations and the World Food Program.

-- Authority is provided under Title II Section 206 to use the proceeds from sales of commodities (other than in famine or other urgent or extra-ordinary relief circumstances) for (a) alleviating the causes of the need for assistance, or (b) increasing the availability and the effectiveness of distribution of food provided to the neediest individuals in recipient countries.

-- A requirement for a determination that adequate storage is available in recipient countries and that the distribution of PL 480 commodities will not result in a substantial disincentive or interfere with domestic production or marketing.

Major Developments in 1983

In FY 1983, the PL 480 program totaled approximately $1.5 billion in value for commodities and ocean transportation costs and provided 6.1 million tons of food (including the grain equivalent of cereal based processed food). Of this total, a grant program provided 1.9 million metric tons of food to US voluntary agencies, the WFP, and poor countries to help meet emergency and disaster needs (including feeding of refugees) at a total cost of $599.5 million, including ocean transportation costs. Loan commitments financed a program of 4.3 million tons of food at a total cost of $915.7 million, including ocean transportation expenses (see table below). Over 85 percent of the total of food aid value was allocated to IDA-eligible countries with a per capita income of $795 (in 1981) or less; $13.4 million of the loans may be forgiven if the recipient countries carry out the specific development commitments included in Title III agreements.

The United States continues to provide assistance for refugees in Somalia and Pakistan; for victims of natural disasters and civil strife in Africa and Latin America; and other disasters. During the year a total of $25 million in emergency aid to the drought victims in Southern Africa was allocated under Title II. An additional $25 million for disasters throughout all of sub-Saharan Africa was pledged by the United States in November 1983.

Consistent with legislative amendments, implementation was begun to incorporate specific and measurable self-help measures into PL 480 sales agreements. This should result in a more effective use of US food aid. The emphasis on multi-year Food for Development programs under Title III continues to be a factor in food aid programming.

In order to stimulate greater use of Title III authority, revised detailed guidelines for program design and implementation were transmitted to all country teams and AID field missions with the objective of improving the quality and impact of Title II Maternal/Child Health (MCH) programs.

Food Aid Convention

The International Food Aid Convention came into force on July 1, 1980. Its objective is to achieve, through a joint effort by the international community, the World Food Conference target of pledging at least 10 million tons of cereal food aid annually to developing countries. Under the Convention, commitments total about 7.6 million tons compared to 4.2 million tons previously. The US commitment, which is fulfilled through PL 480 shipments, is 4.47 million tons, an increase of 136 percent over the previous US pledge of 1.89 million tons. The Food Aid Committee of the Food Aid Convention may recommend that members voluntarily increase their contributions to cover emergency needs if a substantial number of low-income countries suffer a sharp shortfall in production.

Prospects for the Near Term

The fiscal year 1984 PL 480 funding level is only slightly higher than fiscal year 1983 and because of current lower prices for wheat (the major commodity shipped under PL 480), actual tonnages may also increase slightly in 1984. At the same time, there is a food crisis in Africa and global economic conditions are causing increased demands for food aid. Until these conditions abate, the demand for higher levels of food aid from all sources will continue in the near term.

The United States is seeking, where appropriate, greater participation in the programming of local currency generated under Title I sales agreements. Effective use of these currencies in consort with other aid resources can help achieve our development goals. Opportunities for programming exist in all aspects of our development work, including possibilities for greater involvement of the private sector.

PL 480 COMMITMENTS
(FY 1983)

	Title II		Title I/III		Total	
	Millions tons a/	$Millions	Millions tons a/	$Millions	Millions tons a/	$Millions
Commodities of which:	1,949.8	404.9	4,132.7	771.9 b/	6,082.5	1,176.8
Subject to loan forgiveness	(--)	(--)	(765.5)	(139.4)	(765.5)	(139.4)
Ocean Freight	xx	194.6	xx	77.6 c/	xx	272.2
Total	1,949.8	599.5	4,132.7	849.5	6,082.5	1,449.0

a/ Including the grain equivalent of cereal based processed food.

b/ Includes $23.6 million initial payments received from Title I sales program.

c/ For the Title I/III programs, ocean transportation costs were financed by recipient countries except that the United States absorbed the cost of the differential, if any, resulting from the requirement that 50 percent of the cargo be shipped on US flag vessels.

Chapter IV.D.

OVERSEAS PRIVATE INVESTMENT CORPORATION

The major theme of the Reagan Administration, elaborated throughout this volume, is that developing countries should follow economic development policies that foster economic efficiency and encourage individual initiative and private enterprise. Further, in the President's International Investment Policy Statement released in September 1983, private direct investment is designated as a "vital and necessary ingredient in a stable, growing world economy." The Overseas Private Investment Corporation (OPIC), continues to play a significant role in the Reagan Administration's strategy, by facilitating US investment in those developing countries which welcome private sector activity and with which the United States has generally good relations. At the same time, OPIC will continue to promote the well-being of the US economy.

An inflow of capital has beneficial effects on a country's economic growth. OPIC programs are aimed at increasing the total flow of US capital to developing countries; thereby contributing to aggregate growth in those countries. In addition, the Corporation seeks to heighten the developmental benefits of OPIC-assisted projects by encouraging increased transfer of managerial and technical skills, the greater use of local labor and other local private sector resources, the development of local energy resources, and the promotion of exports. These developmental benefits of OPIC's programs are not accomplished at the expense of US economic interests. On the contrary, the returns from OPIC-assisted foreign investment over the years add up to significantly more than the initial capital outflow, for a positive net effect on the long-term balance of payments.

The Overseas Private Investment Corporation was created as an independent agency by the Foreign Assistance Act of 1969, although the program had existed as part of US foreign assistance activities since the Marshall Plan days. The 1969 Act provided that OPIC would complement the foreign assistance program by mobilizing and facilitating the participation of private capital and skills in the development process. OPIC has several major programs which help meet these objectives: political risk insurance, financial services, and special investment promotion programs.

The OPIC Program

Insurance

An investor considering a project overseas must evaluate the risks posed by future political, economic and social conditions in the country. In light of increased levels of political instability in many regions of the world in recent years, these types of concerns have become even more pressing. By providing insurance against inconvertibility of currencies, loss due to expropriation, and damage caused by war, revolution or insurrection and civil strife, OPIC reduces the probability of catastrophic losses to US investors. The availability of such insurance is frequently a prerequisite to a US firm's investing overseas. Further, since other governments provide similar services for their investors overseas, OPIC insurance allows US investors to be more competitive with their counterparts from Japan and other developed countries in the growing markets of the developing world. However, in keeping with OPIC's developmental role of facilitating additional capital investment abroad, OPIC insurance is available only for new investment not already irrevocably committed. Consequently, investors are encouraged to contact OPIC in the early stages of investment planning.

Financial Services

The OPIC Direct Loan and Loan Guaranty programs complement conventional sources of long-term financing, and help to remove some of the other constraints to US investment in the developing world. For example, because of unfamiliarity with making loans for use in overseas investments, or due to their internal country exposure limits some US banks at times may be hesitant to lend for projects in developing countries. Also, US banks sometimes may be unwilling or be able to accept certain political risks. Or in the absence of host country branches, the cost of negotiating a loan can be prohibitive to some US banks. In addition, a firm with little previous foreign investment experience may find it difficult to obtain commercial financing. In situations such as these, the OPIC finance program makes financing available to US investors who otherwise would be unable to invest in developing countries. Furthermore, because these loans generally provide medium to long-term financing, they encourage investors to undertake projects which are more developmental in their effects on the host country. In this regard, when determining whether to assist an investment, OPIC is mandated to consider the economic and social development impact and benefits of the projects. To obtain OPIC financing, the venture must be commercially and financially sound as well.

Special Services

Investment Encouragement Activities. OPIC offers a wide range of special services to facilitate investment overseas by American businesses. Services which encourage wider participation in overseas investment by smaller American businesses include investment missions, which bring US investors in touch with local government officials and potential joint venture partners; a computerized data bank that can match an investor's interest with possible joint venture partners and specific overseas opportunities; assistance for feasibility studies and pilot projects; conferences, seminars and other educational programs; and training grants. OPIC also has programs for medium-term debt financing for the establishment or expansion of distributorships overseas; and special assistance to private voluntary organizations and cooperatives which facilitate the transfer of US technology and managerial skills, and promote joint venture development between small US investors and host country partners.

Letter of Credit Guaranty Initiatives. The OPIC program for letter-of-credit guaranty insurance protects US contractors and exporters against the risk of arbitrary draw downs of the letters-of-credit they may be required to post as bid, performance or advance payments bonds. The need for this program originated when it became evident that American contractors were losing their already small share of the Middle Eastern construction market to competing Asian and European firms. Although American firms were generally acknowledged to be competitive on an experience and performance basis, they were losing their market share because of their difficulty in posting the required guaranties. Not only do letters-of-credit draw heavily upon the contractor's bank credit resources, but more importantly the possibility of an arbitrary drawing down of the posted guaranty creates the possibility of severe financial loss or even bankruptcy for the contractor. OPIC letter-of-credit guaranty insurance protects against this risk. This protection, originally designed for use by US contractors, has been expanded to also serve US exporters and suppliers. Contractors and exporters may also obtain insurance against the risks of currency inconvertibility; confiscation of tangible assets and bank accounts; war, revolution, insurrection and civil strife; and losses sustained when as party to a contract, a government, fails to settle a dispute in accordance with the provisions of the underlying contract.

Energy and Minerals Program. One of the important constraints to development is the high cost of energy. Many developing countries, however, potentially possess large undiscovered oil reserves, as well as geothermal, mineral, solar, and other energy sources. The OPIC energy program which provides political risk insurance and financial services for US

investors in the exploration, development and production stages of energy projects addresses this situation.

The United States imports a large percentage of its needs of certain strategic minerals, many of which come from developing countries. The OPIC minerals program helps secure US access to diverse sources of these materials, by providing political risk insurance and financial resources to US investors for the production abroad and export to the United States of strategic minerals not available domestically. OPIC minerals provide them with needed foreign exchange, and improve their infrastructure.

Leasing. Cross-border operating and capital leases, contracted for a minimum of 36 months, are eligible for OPIC insurance and financial assistance. This program is designed to encourage developmentally beneficial transfers of US technology, and to facilitate US capital equipment investment and trade overseas.

Highlights of Fiscal 1983

OPIC's record of achievement continued in FY 1983. OPIC:

-- issued $3.9 billion worth of insurance during FY 1983, a 25 percent increase above the FY 1982 record of $3.1 billion;

-- provided loan guarantees or financing to 19 new projects, which facilitated a total of $2.1 billion in new investment in the developing world;

-- assisted eight projects in the minerals and energy sectors, and total investment in these crucial sectors amounted to $2.0 billion;

-- continued its support of the administration's major policy initiative in the Caribbean Basin. This led to insurance or financial assistance for 25 projects, and support for 12 investment feasibility studies in the region. In addition, expanded grant activities brought a variety of innovative projects designed to enhance the region's manpower resources and encourage joint ventures between US and local businessmen;

-- initiated its Opportunity Bank service which is a computerized data system designed to identify potential foreign investment projects and partners for US investors seeking overseas investment opportunities. This, along with other outreach program efforts, helped to broaden the US business community's awareness of the services OPIC offers, and resulted in small businesses and cooperatives taking a greater share of OPIC's portfolio (39 percent) in FY 1983, than in the preceding year;

-- undertook seven investment missions in which more than 120 executives examined investment opportunities in 11 developing countries. In all, more than 70 specific projects were identified as viable opportunities for joint business ventures. Countries visited include Egypt, Haiti, Jamaica, India, Pakistan, Antigua-Barbuda, Barbados, Dominica, St. Kitts-Nevis, St. Lucia and St. Vincent. In addition, OPIC held its second telemission, an investment mission via satellite, which allowed nearly 1,000 US businessmen to discuss investment concerns and opportunities with officials and industry leaders from nations of the Caribbean; and

-- increased its investment encouragement efforts by approving assistance for 33 feasibility studies, 14 of which involve projects in the least developed Third World countries. Also, OPIC used its special projects grant authority to support a creative array of development projects designed to facilitate US investment abroad. For example, OPIC assisted the Fund for Multinational Management Education with the presentation in each of the five ASEAN countries of a management training program on the assessment, transfer, and utilization of US technology. The program generated sufficient US/ASEAN business interest to continue and expand the training on a self-sustaining basis.

During FY 1983, OPIC assisted 98 investors in 124 projects located in 38 countries around the world. Forty-nine of these projects were in manufacturing, 25 were in service industries, eight were in construction, 21 were in agribusiness, eight were in the minerals and energy sectors and 13 were in banking and finance.

On a regional basis, the largest share of the portfolio is in East Asia (42 projects). Thirty projects received OPIC insurance or financial support in Latin America and the Caribbean. Twenty-six projects were in the Middle East, 13 were in Africa and 13 were in South Asia.

Effects on Developing Countries

OPIC projects bring many benefits to the host countries. In the fifth year of operation, these projects are expected to employ a total of 25,298 people, 16 percent of whom will be in managerial or professional positions. About $742 million of the original investment will be spent locally for goods and services, and an additional $328 million will be spent in other developing countries. Once in operation, these projects are expected to generate an estimated $403 million annually in net foreign exchange earnings and $184 million in taxes and duties.

OPIC plays a significant role in assisting the lower income developing countries. In FY 1983, OPIC assisted 65 investment projects in 18 IDA eligible countries, with a total value of approximately $2.6 billion.

Examples include:

-- An OPIC-insured and financed project which involves a total investment of $1.9 billion to explore, develop and produce oil in Sudan. Sudan, now one of the poorer oil-importing countries in Africa, is expected as a result of this single project, to become a net exporter of oil, generating a positive net annual foreign exchange effect of $140 million. Further, tax revenues and royalty payments to the government of Sudan will be substantial, and the project will employ and train over 900 Sudanese nationals.

-- An OPIC-assisted project to establish and operate a poultry and swine breeding facility and feedmill in the People's Republic of China. The project, designed to help meet the country's need for high protein foods, will employ 367 people, and is part of China's effort to develop small-scale industry and to become self-sufficient in food production.

-- A project, using OPIC's letter-of-credit insurance coverage for contractors, will supply the capital city of Dhaka, Bangladesh with water control devices and materials for use in the upgrading and expansion of the municipal potable water distribution network. This will result in a major improvement in the health conditions in the city.

Effects on the US Economy

OPIC supported projects also provide significant benefits to US employment and to the external position of the United States. During their first five years of operation, these projects are expected to generate 33,355 man-years of employment for US workers, approximately $2.1 billion in US exports from initial procurement and ongoing procurement of more than $78 million worth of US materials and equipment during the first five years of their operation.

Prospects for the Near Term

Following several difficult years, the world economy, particularly in the OECD countries, exhibited signs of recovery in 1983. Nevertheless, the impact of the recovery has been delayed for most developing countries, and the external debt burdens and a shortage of foreign currency reserves remain serious problems for many Third World countries. This, coupled with the limited availabilities of concessional aid, has caused

many developing nations to seek alternative sources of capital for new productive investment and economic growth. In this context, OPIC, as a development agency which facilitates US investment in the developing world, takes on an increasingly significant role.

In order to fulfill its mandate, OPIC continued its efforts during the last fiscal year to heighten the awareness of the US business community about investment opportunities in the Third World. During FY 1984, a number of the innovations instituted during FY 1983 will be continued or expanded. These include the Opportunity Bank mentioned earlier, and an ambitious schedule of investment missions. OPIC conducted highly successful missions to Turkey in October and to Indonesia in December of 1983, and is planning four additional investment missions in 1984. Also, in November 1983, OPIC co-sponsored with several US agencies and private companies a unique program, Operation Opportunity, designed to increase awareness among US companies of business opportunities in foreign markets, and how the US government can assist interested US firms. The program highlighted the Administration's efforts to facilitate world economic development and growth through encouragement of private sector initiative, and of free international trade and investment policies.

During 1984, OPIC will work actively to increase the number of countries in which its programs can operate. To assist investments in a country, OPIC must first sign a bilateral agreement with that country. Three such agreements were signed during 1983, (Uruguay, Chile, and Djibouti) and OPIC is hopeful that additional agreements will be consumated in the foreseeable future. OPIC currently operates in approximately 100 developing countries.

The capital, skills and business expertise in the US private sector can play a pivotal role in the economic growth of the developing world. OPIC plays a unique role in uniting investors, especially small investors, with business opportunities in developing countries. OPIC looks forward to continuing to provide a broad array of services to selected US investors to encourage US private direct investment abroad, thereby furthering the development process.

Chapter IV.E.

THE TRADE AND DEVELOPMENT PROGRAM

The United States Trade and Development Program (TDP) goals are to:

-- promote US exports,

-- contribute to the development efforts of friendly countries, and

-- facilitate US access to natural resources of interest to the United States.

TDP provides grants to developing countries for project planning services conducted by American firms, for major development projects which represent significant markets for the exportation of U.S. goods and services. When feasibility studies are carried out by US entities, US contractors are more likely to be selected to undertake the downstream projects. Thus, the mutual interests of both the United States and the host countries are met by furthering their development and expanding US exports. This leads to job creation in the United States and improvement in the US trade balance with Third World countries.

The programs administered by TDP are authorized by Sections 607(a) and 661 of the Foreign Assistance Act of 1961, as amended. Under Section 607(a), TDP serves as the coordinating and authorizing agency for the provision of technology, technical services and training by USG agencies on a fully reimbursable basis. Under Section 661, TDP sponsors a wide range of project planning services, from project formulation to feasibility studies. Section 661 funded activities are mainly carried out by private US firms.

TDP has an impressive track record. In FYs 1980-82, a cumulative TDP budget of $14 million for project planning studies has led to projects which involve an estimated $500 million in US exports. Probable and possible exports over the next few years, taking into account time required for further project development and for add-ons to prior equipment and consulting contracts, would increase export amounts even more. A recent outside evaluation examined all the activities financed by TDP in FY 1981. The study was able to identify approximately $285 million of contracts already underway or in process for downstream goods and services stemming from the TDP expenditure of $4 million. A projection was made of some $1.7 billion additional potential U.S. exports during the next five years if the projects proceed as anticipated.

TDP is a unique policy, trade and commercial instrument. It is one of the few forms of USG funding which can be extended to strategically important middle income, AID-graduate and non-AID countries such as China, Brazil, Korea, Turkey and the oil producing countries.

In FY 1983, TDP was active in areas such as energy development, telecommunications, transportation, minerals development, agribusiness and industrial development in various parts of the world. Projects included industrial facilities surveys in China, coal mines and transportation systems in Indonesia, Jamaica, Cyprus and the Philippines, cobalt mining in Peru, electric power load center in Guatemala, a telecommunications master plan in the Philippines, a mineral port in Gabon, and a hydropower project in Malawi. Feasibility studies for these and other projects typically meet the requirements of major financing institutions such as the World Bank with regard to matters such as technical, economic, financial, environmental and other concerns.

In FY 1983, the Trade and Development Program obligated $10.9 million as its Section 661 program budget, including $2 million transferred by Congress to TDP from the U.S. Department of Energy. Of the total Section 661 program, 67 percent was used to finance feasibility studies, 16 percent was used to finance reimbursable investor grants and the remaining 17 percent was allocated to project development and analysis of proposals. The FY 1983 feasibility studies involved projects in energy (36 percent), infrastructure (18.9 percent), agriculture (13.7 percent), minerals/mining (12.6 percent), and industry (10.3 percent) with the remaining 7.6 percent going towards non sector and human resources projects.

The TDP 607(a) program for FY 1983 is expected to involve services by USG agencies to foreign governments valued in excess of $9 million on a fully reimbursable basis.

TDP's appropriation has been increasing steadily from $6.9 million in FY 1982 to $10.5 million in FY 1983 and $16.25 million for FY 1984. This increase is due to TDP's proven track record of being able to contribute to high priority development projects, mainly in non AID countries, while simultaneously expanding US exports and the use of US technology in the implementation of these projects. It is also due to TDP being an important instrument within the Administration's efforts to involve the US private sector in foreign assistance efforts. TDP also has strong support from the private sector itself.

There is a large and growing demand for TDP assistance. TDP entered FY 1984 with some $35 million of shelf projects waiting for consideration. Many more requests will arise during the year. In FY 1984, TDP will continue to play an

important role in countries like China, Brazil and Turkey, as well as for regions of importance such as the Caribbean Basin, the ASEAN countries and Africa.

Some examples of TDP activities are:

-- Jamaica Agribus. Develop.: TDP Obligation $27,820.
Actual US exports delivered or contracted by 1983: $500,000.
Projected US exports within next five years: $300,000.
Survey in Jamaica and agribusiness tour to various East Coast food processing and port facilities.

-- Jamaica Renewable Energy: TDP Obligation: $20,000.
Actual US exports delivered or contracted by 1983: $287,000.
Projected US exports within next five years: $5 million.
Technology workshop in Kingston for all friendly Caribbean countries. Joint effort by Department of Energy, Department of Commerce, TDP, AID, OPIC, and Brookhaven National Laboratories.

Nigeria Agribus. Develop.: TDP Obligation: $93,170.
Actual US exports delivered or contracted by 1983: $37 million.
Projected US exports within the next five years: $185 million.
Feasibility study concerning opportunities for agribusiness investments by US companies in Nigeria. Support activities of JACC (Nigerian American Joint Agricultural Consultative Committee).

Philippines Illigan Steel: TDP Obligation: $300,000.
Actual US exports delivered contracted by 1983: $20 million.
Projected US exports within the next five years: $58-63 million.
Initial project planning for an integrated iron and steel complex on the island of Mindanao to produce rolled steel products and steel billets for the domestic market, using indigenous materials.

Turkey Highway Maintenance: TDP Obligation: $18,000.
Actual US exports delivered or contracted by 1983: $300,000.
Assistance in preparation of feasibility study to be presented to World Bank in support of request for financing a highway rehabilitation program. The World Bank approved a $71.1 million loan in May 1982, with additional cofinancing of $70 million by the Kuwait Fund for Arab Economic Development. Total project cost - $265.1 million.

Thailand Offshore Natural Gas Pipeline: TDP Obligation: $223,000.
Actual US exports delivered or contracted by 1983: $120 million.

This was TDP's first success story in Asia and the result of a $223,000 grant to finance two studies and a technological orientation visit to the United States for gas pipeline technology. This led to some $120 million of contracts with US firms for engineering design and construction supervision, for laying and installation of the offshore gas pipeline, plus several smaller sub contracts with US firms for work on the on shore pipeline.

Thailand Mae Moh High Voltage Transmission: TDP Obligation: $444,000.
Actual US exports delivered or contracted by 1983: $7.6 million.
Projected US exports within the next five years: $1,000,000.
Technical and economic evaluation of a transmission system to integrate the proposed generation expansion at Mae Moh into the existing Electricity Generating Authority of Thailand (EGAT) electrical transmission network.
Transmission for four units scheduled to be commissioned between September 1986 and September 1988.

Chapter IV.F.

PEACE CORPS

The Peace Corps' mission is to promote world peace and friendship by making American volunteers available to: help the people of interested countries and areas in meeting their needs for trained manpower, particularly in meeting the basic needs of those living in the poorest areas; and, help promote a better understanding of Americans among the peoples served and a better understanding of other people among Americans.

Peace Corps programs are consistent with and support overall US development policy. Peace Corps provides a continuing focus within the development community on grass-roots development issues and strategies, emphasizing human development for self-reliance.

During 1983, the person-to-person, grass-roots approach, which has been Peace Corps' hallmark for 22 years, provided increasing opportunities for collaboration with other agencies, especially AID but also a variety of multilateral, private and voluntary organizations.

Continuing progress was made in designing and implementing new projects in the fields of forestry, fisheries, renewable energy, health, water, food production, nutrition, and education. Ongoing projects in these areas were strengthened by focusing volunteer assignments on building local capabilities, mobilizing local resources, using capital saving appropriate technologies, and developing self sustaining productive capacities, particularly in food and energy.

US Contributions

In 1983, approximately 5,500 American Peace Corps Volunteers participated in the development efforts of 62 developing countries. They worked on a variety of projects developed jointly between Peace Corps overseas staff and host country agencies, responding both to the expressed needs and interest of the host government and to the basic needs of the poor in each country.

Twenty-nine hundred men and women entered Peace Corps training for two-year assignments in Africa, Inter-America, the Caribbean, the Near East, Asia, and the Pacific during 1983. As part of the effort to assure that all Volunteers will possess not only the appropriate service motivation but also the technical skills requisite to their assignments, Peace Corps expanded the use both of the Centers for Assessment and

Training and of specially designed, competency-based technical skill training programs held in the United States prior to Volunteer departure for the in-country phase of training.

The Peace Corps integrates into all its activities consideration of the problems seen and felt by women in developing countries, tries to assess their needs and the impact of those problems on the family and individuals, and has the goal of assuring equitable representation of women and in program leadership positions.

The Peace Corps funding level for FY 1983 was just under $109 million. In addition, host countries continued to make substantial contributions to Peace Corps projects (in cash and in-kind), demonstrating their commitment to the program.

The single greatest area of expenditure continued to be the direct support and training of Volunteers overseas. Costs of overseas staff support and the recruitment of Volunteers were the two other major expenditures. Three-quarters of all Peace Corps staff were stationed overseas in the host countries where Volunteers serve; two-thirds of the overseas staff were host country nationals.

During 1983 the Peace Corps had programs in the following countries:

Africa: Benin, Botswana, Burundi, Cameroon, Central African Republic, Gabon, The Gambia, Ghana, Kenya, Lesotho, Liberia, Malawi, Mali, Mauritania, Niger, Rwanda, Senegal, Seychelles Islands, Sierra Leone, Swaziland, Tanzania, Togo, Upper Volta, and Zaire.

Inter-America: Belize, Costa Rica, Dominican Republic, Eastern Caribbean (Anguilla, Antigua/Barbuda, Barbados, Dominica, Montserrat, Christopher/Nevis, St. Lucia, St. Vincent/The Grenadines), Ecuador, Guatemala, Haiti, Honduras, Jamaica and Paraguay.

North Africa, the Near East, Asia, and the Pacific: Cook Islands, Fiji, Kiribati, Malaysia, Micronesia, Morocco, Nepal, Papua New Guinea, Philippines, Solomon Islands, Sri Lanka, Thailand, Tonga, Tunisia, Tuvalu, Western Samoa and Yemen.

During 1983, Peace Corps initiated a program in Sri Lanka. Oman and Malaysia countries' agreements were mutually terminated.

Peace Corps Volunteers served in a wide variety of individual assignments and projects, each tailored to address special local needs. While summary statistics cannot

adequately reflect the range and diversity of activities, they do provide an overview of the types of development programs in which volunteers are involved.

During 1983, approximately:

-- 23.2 percent of Volunteers were working in Food Production Projects.

-- 31.7 percent of Volunteers were working in Classroom Education Projects.

-- 13.5 percent of Volunteers were working in Health/Nutrition Projects.

-- 3.9 percent of Volunteers were working in Architecture/ Planning/Engineering Projects.

-- 5.6 percent of Volunteers were working in Competitive Enterprise Development Projects.

-- 2.2 percent of Volunteers were working in Skilled Trades Projects.

-- 5.2 percent of Volunteers were working in Home Economics/ Community Services Projects.

-- 7.6 percent of Volunteers were working in Energy and Forestry/Conservation Projects.

-- 7.1 percent of Volunteers were working in Other Assignments.

Selected Major Development in 1983

Small Projects Assistance Program

In January 1983, USAID established the Small Projects Assistance Program in 31 countries in which both USAID and Peace Corps are currently operating. Each country has been given $40,000 to support self-help efforts identified by local communities with the assistance of PCVs. Activities funded under this program for up to $10,000 each will be used to support local development efforts in the broad areas of agriculture, energy, and small enterprise development. This is a major new initiative for Peace Corps and greatly enhances its ability to promote self-reliant development programs at the local level.

Information Collection and Exhange

The work of thousands of Peace Corps Volunteers in developing communities over the past 22 years has created a

wealth of practical knowledge on appropriate technologies for development. Volunteers have tested designs, refined techniques, developed unique approaches and created new solutions to old problems in agriculture, health, energy, and a host of other areas. Peace Corps collects and publishes this information in the form of both technical manuals for Volunteers and case studies of Peace Corps programs. These materials, published by the Information Collection and Exchange, are shared widely with organizations and individuals working in developing countries, broadening the impact of the agency's grassroots development work.

Collaboration with Private and Voluntary Organizations

In 1982, Peace Corps embarked upon a strategy of expanding collaboration with private and voluntary organizations (PVOs) in the United States and in developing countries. This has meant both renewing old working relationships as well as reaching out to new PVOs.

Current collaborative efforts have taken various forms. In some cases, it has begun with a memorandum of understanding between the headquarters of the PVO and Peace Corps in which mutual development objectives are articulated and both organizations agree to work together to find mutually acceptable ways to collaborate. Such agreements have been signed with six PVOs and a number of others are in various stages of negotiation.

In other instances, specific collaborative activities continue to be developed on the field level, where more definitive country specific projects are agreed to and implemented. Often times, these efforts are financed by the Agency for International Development. In 1983, Peace Corps Volunteers were working with over 60 PVOs.

An ongoing area of Peace Corps/PVO collaboration is in the area of technical development information exchange. In this process, Peace Corps' Information Collection and Exchange (ICE) makes available copies of its published manuals and other resources to PVOs sometimes in exchange for documents produced by the respective PVO. These resources are in turn made available to PVO projects in the field and Peace Corps Volunteers and staff in the field.

Another area of collaboration being explored is the assignment of Peace Corps Volunteers directly to the PVO in a non-Peace Corps country. Such arrangements would combine the special program expertise of the PVO with that of the Peace Corps' ability to recruit, select, and train qualified Volunteers.

"Small Enterprise Development" Sector

In response to the 1984-85 Peace Corps Forward Plan, a Small Enterprise Development sector has been established to provide programming and training assistance to the field. The Small Enterprise Development Initiative is an effort to give disadvantaged individuals in host countries the knowledge and skills needed to find and create useful employment, increase their standards of living, and become self-reliant.

One of the goals of the initiative is to increase Volunteer and staff awareness of the potential of income generating opportunities in all sectors: for example, agricultural marketing opportunities and income generating projects in energy, fisheries, and forestry.

Integrated Training System

Peace Corps has issued a set of policies and standards which bring together the best of what it has learned about training for development over the past twenty years. The Integrated Training System (ITS) will be used worldwide by Peace Corps staff to plan, design, and implement short-term cross-cultural, language and skill pre-service and in-service training for volunteers. ITS is a system which allows for adaptation by each country while establishing minimum, as well as optimum, standards for volunteer training.

Peace Corps-AID Collaboration

Cooperation between the Peace Corps and AID continue to increase, both in the field and at the interagency level. Existing agreements in the areas of energy, forestry and disaster assistance preparedness were extended. New agreements were initiated to support the development of small projects at the village level and to combat communicable childhood diseases. These efforts are aimed at the institutionalization of a set of local level approaches to critical problems which can be sustained beyond the scope of the PC-AID agreements. Discussions are in progress regarding additional collaborative agreements in the areas of fisheries, oral rehydration therapy and small enterprise development.

United Nations Volunteers Programs

FY 1983 was the thirteenth year of Peace Corps' participation in the United Nations Volunteers (UNV) Program, an international corps of approximately 1000 mid-level professionals serving in 90 developing countries. Since 1971, 218 United States citizens have been sponsored by Peace Corps

as UNV, and have worked alongside Volunteers from over 70 other nations in development projects. Most UNV positions are in programs executed by UN Agencies, such as UNICEF, FAO, WFP, ILO and UNHCR, thus affording the Volunteers an opportunity to work within the United Nations system in positions of considerable responsibility. Through the UNV Program, Peace Corps-sponsored Volunteers are also given the opportunity to serve in many countries where Peace Corps has no bilateral programs.

As the sponsoring agency for all US citizens applying to the UNV Program, Peace Corps recruits and screens prospective candidates through the Multi-lateral and Special Programs Unit. Peace Corps sponsorship of UNVs includes provision of transportation costs and readjustment allowances. Peace Corps also provides an annual contribution to a UNV Fund to cover the costs for some UNVs from developing countries.

Of the 44 US citizens serving as UNVs in 1983, over 60 percent are former Peace Corps Volunteers who have chosen to continue their work in international development through this multilateral program. Of particular interest to former volunteers have been the UNV programs providing assistance to refugees in Southwest Asia and East Africa, established through a Peace Corps initiative with the UN High Commissioner for Refugees,and the programs established to teach English and scientific subjects in universities in the People's Republic of China.

Private Sector Development

Consistent with the Administration's policy of encouraging the involvement of American private enterprise with government agencies to generate long term economic progress in developing nations, an Office of Private Sector Development has been created. It administers the Peace Corps Partnership progress, encourages donations of services and equipment from private concerns, promotes Peace Corps understanding among major corporate personnel administrators so as to encourage employment of returned volunteers, and other activities.

"Women in Development" Emphasis

A special "Women in Development" initiative was revitalized during the year to support Peace Corps involvement in WID activities. Technical Consultation and training sessions were held in 20 countries; a data base on WID was created, four training manuals now include WID and two handbooks have been printed. At the year's end a newsletter on WID will be completed. The training of staff and volunteers has been a

major goal. In addition, Peace Corps sponsored the first White House Symposium on Women in Development Issues. Peace Corps WID is also an active member of the United Nation Decade Conference on Women Task Force.

Refugee Assistance

Established relationships were continued during 1983, permitting the assignment of Peace Corps sponsored United Nations Volunteers to assist in refugee work of the United Nations High Commission for Refugees. In response to the continuing refugee crisis, the Peace Corps assisted in refugee relief programs in Southeast Asia and Somalia. As of November 1, 1983, six US citizens working as Peace Corps Volunteers through the UN Volunteers were in refugee relief programs.

Chapter IV.G.

INTER-AMERICAN FOUNDATION

The Inter-American Foundation (IAF) is a public corporation created by Congress in 1969 as an alternative to established assistance programs in Latin America and the Caribbean. Granted authority to conduct its affairs independent of other US foreign policy agencies, the IAF works to explore and promote more equitable, responsive, and participatory approaches to development and foreign assistance in the region. The Foundation's funds come from Congressional appropriations and from the Social Progress Trust Fund of the Inter-American Development Bank.

Under its legislative mandate, the IAF is charged with responsibility for:

-- assisting initiatives of Latin American and Caribbean organizations that provide opportunities for the social and economic development of low-income and otherwise disadvantaged groups;

-- fostering the participation in community and national development of those groups that are usually denied a voice in development decisions and largely excluded from the benefits of programs;

-- encouraging the emergence and growth of democratic institutions in the region; and

-- contributing to public understanding and debate about institutions, policies, and programs that shape and constrain economic and social change in Latin America and the Caribbean.

The IAF is governed by a seven-person Board of Directors appointed by the President of the United States. Four members of the Board are drawn from the private sector and three from government. A President appointed by the Board serves as the chief executive officer of the Foundation. The 67 person staff is located at the IAF office in Rosslyn, Virginia, just outside Washington, D.C. Staff members travel regularly to Latin America and the Caribbean to review current projects and new proposals. The Foundation maintains no overseas staff or offices.

The Foundation selects projects for support from the large number of proposals it receives. The IAF responds to initiatives coming from Latin American and Caribbean groups and does not set goals or directions for those who receive its assistance. The Foundation does not have fixed priorities or guidelines for the allocation of its funding among countries, institutions, or program sectors. Its small size and independence allow the IAF to respond more quickly to proposals than other aid agencies and to support many organizations and ideas that might otherwise not have access to external assistance.

US Participation and Contributions

During the past 12 years, the Inter-American Foundation made grants totalling more than $170 million for approximately 1,600 projects in 27 nations of Latin America and the Caribbean. IAF grants have varied in size from less than $1,000 to $2.5 million; the average grant has been approximately $110,000. In FY 1983, the Foundation approved appoximately 340 new and supplemental grants totalling $18 million. The Foundation concentrated its spending on projects that:

-- Strengthen peasant, worker, and community groups so they can better promote the social and economic interests of their members. Particular attention is given to organizations that are participatory and democratic in their operations, are prepared to commit their own resources to the objectives being sought, and are likely to continue to grow and develop beyond the period of IAF assistance.

-- Support the development of institutions that can foster cooperation among peasant, worker, and community groups and provide them with such services as credit, technical assistance, training, and marketing and distribution facilities. Important among these institutions are federations of cooperatives, private development foundations, church and university programs, and agricultural service organizations.

-- Explore new approaches to the problems of deprivation among and discrimination against the particularly disadvantaged: ethnic and racial minorities, the rural landless, poor women, unemployed youth, and Indians. Promising activities are being supported in education, health and nutrition, and job creation.

-- Promote research and analysis at Latin American centers that can document and explain the conditions of poor and disadvantaged groups, assess the implications of alternative government policies and programs on the welfare of these groups, and clarify the issues and choices facing poor and disadvantaged people as they work to improve their situation. The Foundation also maintains a competitive program of fellowship awards for doctoral and masters degree candidates at US universities to conduct field research in Latin America and the Caribbean, and for junior researchers in Latin America and the Caribbean to study in the United States.

Among the grants made in 1983 were the following:

-- $189,375 to Integracion Juvenil in the Dominican Republic, to carry out programs in education and income-generation with street children in the community of Puerto Plata;

-- $65,500 to the Cooperativa Central de Producao Artesanal Potiguar in Brazil, to build a drying chamber for the treatment of fibers used by its 3,000 artisan members who make wicker crafts;

-- $99,900 to Educacion y Desarrollo de Occidente in Mexico, to train paramedics to work in rural villages in Jalisco;

-- $69,300 to the Sociedad de Sordos Adultos "Fray Ponce de Leon" in Ecuador, to provide vocational training to its deaf members; and

-- $30,000 to the Northern Beekeepers Cooperative in Belize, to establish a revolving credit fund to increase honey production.

Chapter IV.H

AFRICAN DEVELOPMENT FOUNDATION

U.S. Contribution

The African Development Foundation (ADF) was established to assist indigenous community organizations throughout Africa in response to a need for greater local involvement of the poor in their countries' development. A total of $7.5 million has been appropriated through FY 1984 for use by the ADF. These funds may be used for grants, loans or loan guarantees to any African private or public group, association, or other entity engaged in peaceful activities; and for operating costs of the Foundation.

Description

The ADF is a non-profit corporation of the United States government. It was founded by the Congress to:

-- strengthen the bonds of friendship and understanding between the people of Africa and the United States,

-- support self-help activities at the local level designed to enlarge opportunities for community development,

-- stimulate and assist effective and expanding participation process, and

-- encourage the establishment and growth of development institutions which are indigenous to particular countries in Africa and which can respond to the requirements of the poor in those countries.

The assumption behind these purposes and the creation of the ADF is that there is a need for an organization which specializes in small scale indigenous development projects. The ADF program, therefore, will focus primarily on development promoted by African individuals and community organizations.

Selected Major Development in 1983

The most significant development for ADF in 1983 was the nomination, confirmation and appointment of the Foundation's Board of Directors. The first meeting of the Board was held in October to focus on organizational and program direction. A subsequent meeting was held in November to begin the process of defining broad policy guidelines.

Prospects for 1984

In early 1984 the Foundation will name its President. At that time intensive efforts will begin to:

-- staff the organization,

-- select a headquarters site, and

-- formulate program strategy.

Members of the ADF Board of Directors will travel to various African countries during 1984 to discuss the program with country representatives and to view, first-hand, potential project opportunities. The ADF will seek to identify several projects for initial funding in 1984. Also, the Foundation's Advisory Council will be named and the first Advisory Council meeting will be held during the year at a location to be determined, possibly on the African continent.