

Development Issues

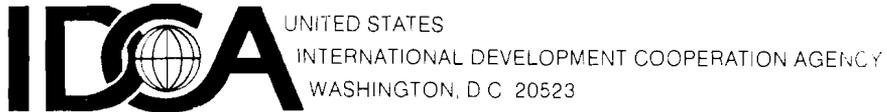
U.S. Actions Affecting Developing Countries

**The 1987 Annual Report of the Chairman of
the Development Coordination Committee**

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African Development Foundation
Agency for International Development*
Department of Agriculture
Department of Commerce
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Department of State
Department of Treasury
Export-Import Bank
Inter-American Foundation
National Security Council
Office of Management and Budget
Overseas Private Investment Corporation*
Peace Corps
Trade and Development Program*
United States Trade Representative

*Components of the International Development
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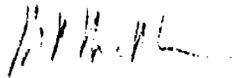
TO THE CONGRESS OF THE UNITED STATES:

The Annual Report on Development Coordination discusses the events of the 1986 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.

The DCC, which I chair, was established by Congress to ensure coordination of development policies and programs within the U.S. Government decision-making process. Coordination occurs through the DCC and its subsidiary bodies, including the Working Group on Multilateral Assistance, the Subcommittee on Food Assistance, and the working group which collaborated in the production of this report. Another major coordination process entails participation by myself or members of my staff in the work of such interagency groups as the National Advisory Council on International and Financial Policies, the Trade Policy Review Group, the Economic Policy Council, and others. Coordination also occurs informally in daily working relations between members of my staff and the staffs of other agencies of the U.S. Government, with my personal involvement as needed. The DCC has continued to fulfill the mandate of ensuring that development goals and issues are taken into account in Executive Branch decision-making processes on international debt, finance, investment, trade, technology, private sector growth, and other policy areas affecting developing countries.

U.S. policy in 1986 continued to reinforce our long-standing goal of providing assistance resources to address basic constraints to development. We assisted in creating and strengthening developing country institutional capacity and in developing and adapting appropriate technologies to developing country circumstances. As in previous years, we continued to emphasize that developing countries establish sound economic policies in an environment conducive to encouraging the expansion of competitive markets and of private sector activities. In providing this assistance, we have attempted to create a climate of mutual cooperation and respect to encourage the design of effective programs.

This edition of Development Issues commemorates the 25th anniversary of the Foreign Assistance Act of 1961. The United States had been providing economic assistance after World War II through a number of agencies prior to 1961. The FAA of 1961 placed the administration of America's bilateral economic assistance under one institution, the Agency for International Development (A.I.D.). Since that time, A.I.D. has worked in close cooperation with other U.S. Government agencies and with private organizations to design and implement the U.S. bilateral economic assistance program. This edition of Development Issues traces the evolution of the U.S. bilateral assistance program to help less developed economies and presents an overview of some of the accomplishments during that period.



M. Peter McPherson

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- Annex 2. **U.S. Foreign Assistance and Repayments of U.S. Government Credits**, Prepared by the Office of Economic Affairs, Bureau for Program and Policy Coordination, Agency for International Development
- Annex 3. **Vol. I, Status of Active Foreign Credits of the United States Government, September 30, 1986; Vol. II, Contingent Foreign Liabilities of the United States Government, September 30, 1986**, Prepared by the Office of the Assistant Secretary for International Affairs, Department of the Treasury
- Annex 4. **Activities of the Minority Resource Center, FY 1986**, Prepared by the Minority Resource Center, Office of Small and Disadvantaged Business Utilization, Agency for International Development
- Annex 5. **New Contracts in Excess of \$100,000**, Prepared by the Procurement Support Division, Office of Procurement, Bureau for Management, Agency for International Development

¹These annexes are not bound in this volume. Each annex is a separate document, prepared by the organization listed after the annex title.

CHAPTER 1

TWENTY-FIVE YEARS OF FOREIGN ECONOMIC ASSISTANCE: THE UNITED STATES LEADS A GLOBAL EFFORT TO PROMOTE ECONOMIC DEVELOPMENT

1.1 INTRODUCTION

This edition of Development Issues commemorates the 25th anniversary of the Foreign Assistance Act of 1961. The Act was a significant milestone in the evolution of the foreign policy of the United States in its new role as an international superpower. In retrospect the Act was also significant because the institution it created, the Agency for International Development (A.I.D.), has remained in existence, developing the depth of experience necessary to design and carry out long-term economic development activities.

The Foreign Assistance Act of 1961 was part of a comprehensive effort by the United States to address constructively the political and economic problems of the postwar period. Following the massive economic dislocation of World War II, the United States assumed a major leadership role in a deliberate and far-reaching foreign policy initiative designed to accelerate international economic growth throughout the world and thereby to create conditions conducive to international stability and peace. The foundation for the U.S. foreign aid program was set out by President Truman in the famous fourth point of his inaugural address of January 20, 1949. The fourth point stated that "We must embark on a bold new program for making the benefits of our scientific advance and industrial progress available for the improvement and growth of underdeveloped areas." Subsequently, the Congress established the Technical Cooperation Administration in 1950 and passed the Mutual Security Act of 1951.

1.2 THE UNITED STATES AND THE DEVELOPMENT OF AN INTERNATIONAL EFFORT TO ACCELERATE ECONOMIC DEVELOPMENT

In the decade following World War II, the United States played a crucial part in all the significant international initiatives designed to promote economic development. Part of this process was the creation of several new organizations intended to assist in rebuilding, stabilizing, and helping to develop economies around the world. The United States had been a principal participant in the formation of two major international organizations in 1944: the International Monetary Fund (IMF) and the World Bank (the International Bank for Reconstruction and Development). During this period, several international organizations were created or given new life within the U.N. group, such as the Food and Agriculture Organization, the World Health Organization, and the United Nations International Children's Emergency Fund (now the United Nations Children's Fund). Outside the United Nations, the General Agreement on Tariffs and Trade, first signed in 1947, has proved a durable vehicle for assisting the United States in its successful efforts to expand world trade. The

International Finance Corporation (IFC) and the International Development Association (IDA) were added to the World Bank in 1956 and 1960, respectively. Regional organizations were also formed, including the Organization of American States and the Colombo Plan, as were regional development banks such as the Inter-American Development Bank, the African Development Bank, and the Asian Development Bank.

In the United States, the number of private foundations concerned with international economic development increased, and many existing foundations expanded their efforts. Many U.S. Government departments became involved in providing assistance to developing economies.

The top priority of the United States in the late 1940s was to accelerate recovery of the industrial economies damaged by the war. By 1946 it was clear that only the United States had the economic strength to respond to the reconstruction needs of Europe and Japan. The United States initiated the Marshall Plan in 1947. Between 1948 and 1952, the United States provided \$17 billion in aid to Europe through the plan, equivalent to about 1.5 percent of the sum of U.S. gross national product over the 4-year period. The United States insisted on a collective recovery program rather than a series of national programs and encouraged regional economic integration in Europe.

As the industrial economies recovered from the war, they too started bilateral assistance programs. These countries included the United Kingdom and all the Western European economies, plus Canada, Australia, New Zealand, and Japan. In 1961 the Organization for European Economic Cooperation, which had been established to assist in the administration and planning of the Marshall Plan program for European reconstruction, was converted into the Organization for Economic Cooperation and Development (OECD). The OECD was formed by 20 signatory countries (4 more countries joined in 1973). The OECD included most of the industrialized, market economies. To facilitate coordination of assistance among the growing number of donors within the OECD, the United States initiated establishment of the Development Assistance Committee (DAC) at the same time.

Encouraged by the United States, the rapidly growing industrial economies increased their multilateral as well as their bilateral assistance levels. Consequently, after 1960, the U.S. contribution to official development assistance (ODA) flows continued to rise in dollars but declined as a share of the growing total. The U.S. share of total DAC multilateral ODA fell from 46 percent in 1960-61 to 22 percent in 1983-84. The dollar level of U.S. ODA (at 1983 prices and exchange rates) declined slightly from \$8.7 billion in 1960-61 to \$8.2 billion in 1983-84. Similarly, the average share of U.S. contributions to IDA in 1961-64 was 42 percent; by 1981-83 the share was 27 percent.

Nevertheless, the United States remains the largest single provider of ODA among the 18 DAC members. In 1985, U.S. bilateral ODA (\$8.2 billion) was 37 percent of the total bilateral ODA of \$21.9 billion. The United States contributed an additional \$1.2 billion in ODA through multilateral institutions, or 16 percent of the total of \$7.5 billion from all OECD members.

1.3 THE ECONOMIC BASIS FOR DEVELOPMENT ASSISTANCE

The economic reasoning behind the provision of economic assistance to foster long-term development was based on the theory of economic development prevailing in the mid-1940s. Development theorists at the time stressed that low-income countries, having high population growth rates and low saving rates, could not invest at rates sufficient to accelerate growth in per capita income. They needed foreign capital to supplement domestic savings in order to boost investment and hence output. In the late 1940s, economists assumed that finance for development would come either directly from private investors or be provided by bilateral and multilateral donors to productive, revenue-producing projects. The assistance funds were to be spent on imported capital goods, and the choice of assistance projects was to be governed by the availability of sound investments.

The theory was modified as it was found that developing countries needed to strengthen their social infrastructure in areas such as education, health, technical skills, and administration. Like much of public infrastructure, these kinds of investments were not attractive to private investors for several reasons:

- The benefits often materialize slowly relative to directly productive investments.
- Many social infrastructure investments do not directly produce revenues.
- Rarely do investments in education or other social infrastructure produce benefits that directly increase exports and thereby yield the hard currency needed to repay regular commercial loans.

What was true and first recognized in the 1950s remains true today: many developing economies require development assistance because they lack the physical and institutional infrastructure necessary to attract private investment and accelerate their economic and development growth rates.

A second important aspect of development assistance is that it includes a "grant element." Assistance must contain at least a 25-percent grant element to qualify as ODA. The grant element measures the degree of concessionality of an aid transfer compared with market terms, which are normally taken to be 10 percent. Thus, an outright grant of aid has a 100-percent grant element, and a loan with a 10-percent interest rate has a zero grant element. In 1984-85 the average grant element of all U.S. ODA was 94.8 percent, compared to an average of 90.8 percent for all DAC countries.

Development assistance, intended specifically to accelerate the rate of economic development, differs from commercial inflows of capital and technology in three additional respects:

- Assistance constitutes a receipt of resources over and above net earnings from commercial transactions.

- Assistance usually involves the transfer of new technologies that do not require payment for their use (as opposed to proprietary technology).
- Assistance is often linked to host government policy changes that are intended to improve economic performance.

The means that bring capital and technology to a developing economy--trade, commercial borrowing, direct investment, and economic assistance--form a blend, with the relative importance of concessional assistance becoming less as the developing country's economy grows and becomes more diversified. Concessional assistance tends to be relatively more important for the poorest economies, especially the least developed economies, because there are relatively few commercially attractive investment opportunities and the net earnings from exports are usually not sufficient to finance long-term social infrastructure programs. It follows that the importance of concessional development assistance to a developing country tends to decline over time as it experiences economic growth, as its domestic market becomes larger and more attractive to foreign investors, as domestic savings and the gains from trade can be used to finance increasingly higher levels of development investment, and as international borrowing capacity increases.

1.4 A RETROSPECTIVE VIEW OF TWENTY-FIVE YEARS OF INTERNATIONAL ECONOMIC DEVELOPMENT

1.4.1 Economic Growth and Development in Developing Countries Over Twenty-Five Years

The discouraging economic record of recent years and the dim growth prospects for some developing countries, especially in Sub-Saharan Africa, tend to obscure the fact that the expectations of the 1950s and 1960s were exceeded. Historically high growth rates in developing countries were achieved over most of the last 25 years. David Morawetz observes in Twenty-five Years of Economic Development: 1950 to 1975 that

...the industrialized nations, in their long period of economic growth unparalleled in world history, had managed to increase per capita income by only about 2 percent a year. There was no reason to expect that the underdeveloped countries, many of which had experienced no growth for millennia, would do any better.... It is against this background of low historical growth rates and low expectations for the future that the actual growth performance of developing countries since 1950 needs to be seen.

Between 1950 and 1975, developing country gross national product (GNP) per capita grew at an average annual rate of 3.4 percent, a higher rate than either the developing economies or the industrialized nations had achieved in any period of comparable length before 1950. The postwar growth rate for developing countries also exceeded forecasts. In 1960 Rosenstein-Rodan forecast

that of 66 developing economies between 1961 and 1976, none would achieve an average annual growth rate greater than 3 percent. In fact, 18 countries had higher rates. Similarly, projections by Chenery and Strout in 1966 of GNP growth rates for 45 countries were met or surpassed for three-quarters of the cases. The achievement of 3-percent-plus per capita growth rates is more notable given the sharp increase in postwar population growth rates that were anticipated to be in the range of 0.7 to 1.3 percent but turned out to be between 2 and 3 percent for all developing countries (except China, at 1.5 percent). By the early 1980s, despite widespread recession, developing countries were producing six times as much as in 1950.

Disaggregating the national data shows that industrial production was eight times higher than in 1950. The developing country share of OECD members' markets for imported manufactures was 17.8 percent in 1981 compared with 7.1 percent in 1955. Gross capital formation was 4.5 times greater in 1981 than in 1960, calculated in constant prices.

The record of achievement in qualitative aspects is even more marked. Between 1950 and 1980, average life expectancy for all developing countries rose from 42 to 59 years and infant mortality among children aged 1 to 4 declined from 28 per thousand to 12 per thousand. In 1950, one-third of all adults in developing countries were literate; by 1980, 56 percent were literate. Primary school enrollment rose from about 60 percent in 1960 to 86 percent in 1980.

1.4.2 The Effectiveness of Economic Aid

Although it would be extremely useful to know the exact contribution of aid to economic development (and aid practitioners would like to be able to provide that information), the effectiveness of aid cannot be assessed precisely because aid plays a supportive rather than a dominant role in a developing country's development efforts. It is even more difficult to assess the effectiveness of the aid provided by a single donor than the effectiveness of aid in general. The assessment of effectiveness is further complicated by the fact that bilateral aid such as that provided by the United States is intended to serve the donor's foreign policy interests as well as contribute to growth and development in developing economies. The discussion in this section, however, refers only to the economic development aspect of aid.

Despite the obvious difficulties, in 1982 the Development Committee (composed of members of the Boards of Governors of the World Bank and the International Monetary Fund) responded to the need for a systematic examination of aid effectiveness by establishing the Task Force on Concessional Flows. The Task Force completed its assessment of the effectiveness of aid in 1985, concluding that

...aid clearly has contributed importantly to growth and development. Although it has had mixed success in alleviating poverty, when properly used aid has led toward self-reliance at rising levels of welfare. The evidence

of many specific successes of aid programs leads us to conclude--even though the finding is difficult to quantify--that the overall aid record is comparable to that of many large domestic programs in industrialized countries. Aid can claim successes in many areas; for example, in agricultural research and development, in the provision of essential physical infrastructure, and in institution building and human resources development through health, population, and education and training programs. Vast numbers of poor people have benefited from programs designed to alleviate poverty in rural and urban areas.

Professor Robert Cassen, in a report based on the work of the Task Force (Does Aid Work? Report to an Intergovernmental Task Force, 1986), provides some extremely useful perspectives on aid effectiveness. First, if foreign assistance investment is always successful, Cassen suggests that there is reason to question whether the aid-giver is being sufficiently innovative or whether its aid program is deliberately avoiding the provision of aid under difficult conditions.

Second, Cassen points out that the effectiveness of foreign assistance investment should be assessed according to criteria applied to similar activities, such as domestic public investment in developing countries, or relative to the performance of foreign private investment in developing economies. Private investment frequently fails, even though it is typically more risk-averting than aid projects (many of which are experimental) that are undertaken in social development in extremely poor areas. Thus Cassen observes that "a record showing only the achievement of high rates of return would be evidence that the challenges of development were not being addressed."

Finally, Cassen notes that a double standard is sometimes employed in discussions of the effectiveness of foreign assistance: even though private investment involves failures, private enterprise is not condemned nor is the free enterprise system called into question.

CHAPTER 2

THE AGENCY FOR INTERNATIONAL DEVELOPMENT: TWENTY-FIVE YEARS OF RESPONDING TO CHALLENGE

2.1 THE FORMATION OF THE AGENCY FOR INTERNATIONAL DEVELOPMENT

Point Four of President Truman's 1949 inaugural address led to the establishment in 1950 of the Technical Cooperation Administration, the first U.S. bilateral assistance agency. In the following year Congress passed the Mutual Security Act, which provided for military, technical, and capital assistance for defense support and for economic development. The Technical Cooperation Administration was followed by the Foreign Operations Administration in 1953 and by the International Cooperation Administration in 1954. The Foreign Operations Administration was abolished and replaced by the Development Loan Fund in 1957. The task of the Development Loan Fund was to administer capital assistance while the International Cooperation Administration administered economic aid and technical assistance.

Congress passed the Foreign Assistance Act in November 1961. The new Act called for the U.S. foreign aid program to be reorganized by combining the International Cooperation Administration and the Development Loan Fund into the newly created Agency for International Development (A.I.D.). A.I.D. was established within the State Department under a director (Administrator) with the status of Under Secretary of State reporting directly to the Secretary of State and to the President.

2.2 EVOLUTION OF THE A.I.D. PROGRAM: STRATEGIC THEMES

The A.I.D. program has evolved in many respects since its inception in 1961, but its fundamental objectives and several of its major components have continued relatively unchanged. The principles that governed A.I.D. policy in 1962 were the result of nearly 20 years of experience with foreign assistance, starting with the postwar programs of relief and reconstruction.

In 1961 the fundamental objective of U.S. foreign assistance was "to assist other countries to maintain their independence and develop into self-supporting nations." The idea was to help countries reach the point where their own resources and abilities to attract investment and credit on commercial terms would be adequate to sustain economic growth. The 1961 Foreign Assistance Act provided for two types of economic assistance: development and security supporting. Development assistance included loans and grants for long-range economic development. The aim of security-supporting assistance was to promote economic and political stability, but such assistance was to be designed to provide the maximum feasible contribution to economic growth.

The principles for determining the allocation of assistance among countries and the amounts and kinds of aid that they would receive were the following:

- The effectiveness with which the country could use available resources--both internal and external--to promote economic and social development
- The importance to the United States of sustaining or accelerating the economic growth of the country
- The availability to the country of other external resources in a suitable form

These three principles have remained essential elements in A.I.D.'s overall approach to serving U.S. foreign policy and contributing to international economic development. But the foreign assistance program has adapted to changing U.S. national interests and changing international problems. Even before A.I.D. was formed, during the period following the Korean War, the share of foreign aid funds allocated to long-term economic and social development began to increase as the need for short-run stability and security assistance decreased. During the same period, the dominant form of U.S. assistance changed from grants to loans.

Three major policy periods mark the progress of A.I.D. through its 25-year history. The first period ran from the passage of the Foreign Assistance Act in 1961 until 1973. The development approach during this first period was characterized by capital assistance projects and technical assistance programs. Capital assistance varied with the particular needs of the host country, but in some of the more advanced developing countries such as Turkey, India, Pakistan, and the Republic of China (Taiwan), programs typically included project loans for physical infrastructure (e.g., hydroelectric and thermal power, railways, roads, telecommunications, water supply, sewerage, and port construction) and industry (e.g., fertilizer, cement, truck assembly, mining, and shipyards).

In Africa, A.I.D. activities during this period emphasized university construction, education, agriculture, water supplies, and some civil construction. The Alliance for Progress was the Latin America program and the centerpiece development program of the Agency. Proposed by President John F. Kennedy in March 1961, the Alliance for Progress was intended to promote democracy and economic development throughout Latin America. Its goals included 2.5 percent economic growth per capita annually, equitable growth, and a large reduction in illiteracy. Infrastructure projects under the Alliance tended to be for rural roads, schools, and water and sewerage systems. There was a wide variety of agricultural and education activities.

The second major policy period began in 1973 with a change in the Foreign Assistance Act, which directed that U.S. aid specifically address the issue of poverty. The legislation, sometimes called "New Directions," lists four principal goals:

- Alleviation of the worst physical manifestations of poverty in developing countries
- Promotion of conditions enabling developing countries to achieve self-sustaining, equitable growth

- Encouragement of development in a manner that enhances individual civil and economic rights
- Integration of developing countries into an open international economic system

With the premise that development is primarily the responsibility of the people of the developing countries themselves, the Foreign Assistance Act declared that U.S. bilateral assistance would "emphasize programs in support of countries that pursued strategies designed to meet basic human needs and achieve self-sustaining growth with equity." The principal purpose of this approach was to help the poor majority in developing countries to increase their incomes and their access to public services.

A.I.D.'s third major policy period began in 1981, as A.I.D. refined its efforts to promote equitable development by emphasizing four areas: the private sector, policy dialogue, institution building, and technology transfer. Institution building stresses the strengthening of local institutions so they can better contribute to the development process and adapt to changing conditions. Institutions include everything from local credit unions and school boards to agricultural research and democratic selection of leaders. Technology transfer refers to efforts to establish more productive technologies that are sustainable and appropriate in developing countries. This effort typically involves blending indigenous techniques with new ones to achieve methods that will be adopted by the host country and continued into the future. In some circumstances, technology transfer also seeks to apply some of the most promising, cutting-edge technologies, such as biotechnology and computer technology. (Institution building and technology transfer are discussed in more detail in Chapter 5.)

Over its 25-year existence, A.I.D. has been concerned about the efficacy of host country policies and how they influence equity, growth, and development. Host country economic policies, including those pertaining to the private sector, were a major concern of A.I.D. programs in the 1960s. During the 1970s, attention in the policy area shifted from host country macroeconomic policies as more stress was placed on designing and implementing projects. By the late 1970s, international economic conditions began to change drastically. As an increasing number of developing countries no longer had adequate budget resources to sustain a full agenda of major, long-term development projects, A.I.D. in 1981 began to pay much greater attention to developing country economic policies.

Although far from perfect, developing country macroeconomic policies during the 1960s and early 1970s had permitted relatively high growth rates in most developing economies because of growth in the international economy. By the early 1970s, inappropriate economic policies were beginning to have more and more negative effects on national economies, but world growth trends were so strong that few observers could yet see those negative consequences. Lulled by development progress, many economic development specialists began to view the distribution of economic gains as the crucial policy problem.

The 1973 oil price hike suddenly placed a major, new strain on developing country economies. However, the fall in their terms of trade and the worsening of their balance of payments position tended to be offset by borrowing at low, even negative, real interest rates. Many developing countries' trade terms recovered in the mid-1970s as commodity prices rose. Borrowing and the recovery of international commodity prices combined to retard the pace of the inherently slow process of formulating and implementing major economic policy changes.

Thus, for many developing countries, there was a critical delay in responding to major shifts in the international economy in the early 1970s. The second round of oil price increases in 1979 drastically decreased developing countries' terms of trade. The oil price increases were closely followed by international recession--which further reduced the demand for developing country exports--and by record-high interest rates. As a result of this combination of events, what had been a slowdown in economic growth for many developing countries rapidly became a financial and economic crisis. Many of the developing countries' macroeconomic policies from the 1960s had become major liabilities by the early 1980s; large-scale policy modification became imperative. It was no longer feasible to concentrate exclusively on economic development efforts in many developing countries; A.I.D. again began to work with host countries to help them adjust their economic policies to increase project effectiveness and to restore equitable economic growth.

A particularly pervasive feature of the 1960s and 1970s had been the gradual expansion of developing country government involvement in economic activity--both direct involvement and an expansion of controls and regulations. Although the degree and nature of government involvement varied among developing countries, in many cases government intervention was instrumental in causing poor economic performance. And, regardless of performance, it was relatively clear that if growth was to be resumed, the inhibiting influences of excessive government involvement would first have to be reduced. Thus in 1981, A.I.D. again began to emphasize the private sector and development of markets within developing countries as a major policy concern.

2.3 THE A.I.D. PROGRAM: MULTIPLE INSTRUMENTS, FINANCING ARRANGEMENTS, PURPOSES, AND EFFECTS

Throughout its 25 years, A.I.D. has employed a variety of means to provide economic assistance. Virtually all assistance by A.I.D. is provided under one of three major categories: Development Assistance, Economic Support Fund, and Public Law (PL) 480. The assistance provided within each category can take one of several distinct forms (or mixes of forms). A.I.D. has also used a variety of financing options, including grants, concessional loans, and, on occasion, a combination of grant and loan.

At the highest level of generalization, all of A.I.D.'s assistance programs are undertaken for both political and economic reasons, but some instruments are more suitable for specific purposes than others. Promotion of long-term economic development

is the prime objective of Development Assistance; direct political objectives usually are negligible. Development Assistance typically takes the form of a project designed to help a host country improve its ability to use its own resources more effectively (i.e., to increase productivity). Project assistance may include financing of imported capital goods, local costs, technical assistance, training, or some combination that builds social infrastructure.

PL 480 is commodity assistance in the form of basic and semiprocessed agricultural commodities such as food grains, vegetable oil, or dairy products. The main purposes of this food aid (the emphasis depends on the particular circumstance) are to feed persons who otherwise would have less food, to provide balance of payments assistance, to serve development purposes, and to develop foreign markets for U.S. agricultural exports.

Assistance under the Economic Support Fund can be provided in the form of project assistance (providing the kinds of inputs listed above) or program assistance (commodity imports or cash). Although the project-program composition of Economic Support Fund assistance has varied over time, in recent years about 25 percent of Economic Support Fund resources have been disbursed in project form. Some of the Economic Support Fund assistance to Egypt, for example, is provided through projects; most Economic Support Fund assistance to Pakistan, Zambia, and Botswana is in project form. Economic Support Fund resources are also used for commodity import programs that finance imports of U.S. products, such as fertilizer and agricultural machinery, that are used to increase domestic food production.

The Economic Support Fund (called Security Supporting Assistance until 1978) is extremely flexible and can be used for purposes ranging from assistance for core economic development to assistance for strategic political objectives. Political considerations may figure prominently in Economic Support Fund allocations, but the form in which the Economic Support Fund resources are provided, as noted in the examples of Egypt, Botswana, Zambia, and Pakistan, can yield substantial developmental and humanitarian benefits.

Program assistance has always been an important instrument for providing economic assistance and for pursuing U.S. strategic political objectives. Wearing their "economic hats," Security Supporting Assistance in the 1960s and the Economic Support Fund in the late 1970s and 1980s were used to relieve developing countries' balance of payments and domestic budget constraints. Depending on the particular country circumstances, program assistance tends to yield positive economic effects in terms of increases in investment, current production, exports, income, and savings. The economic impact of some program assistance is enhanced by linking it to achievement of economic policy changes by the host country government.

Economic Support Fund assistance may, in particular circumstances, be preferable to Development Assistance, even when economic considerations are paramount. These circumstances are essentially those that large numbers of developing countries have experienced since 1980: financial and economic crises, typically

expressed as an extreme shortage of foreign exchange. In these situations, Economic Support Fund program assistance can make significant economic contributions by helping to relieve the immediate financial problem (thereby avoiding major disruption in everyday functioning of the economy) and to facilitate policy corrections or to adjust domestic policies in response to an adverse change in the international economy.

Since 1980, program assistance has become increasingly important for addressing critical financial and policy situations. Although Economic Support Fund program assistance may not always contribute to long-term development in the same way as does project assistance, program assistance has become an increasingly valuable tool in helping to construct the kinds of economic policy frameworks that are more likely to yield growth and long-term economic development.

2.4 AN OVERVIEW OF A.I.D. ASSISTANCE FLOWS: 1962-1986

This section briefly summarizes U.S. bilateral economic assistance flows from 1962, the first full year of the operation of the U.S. economic assistance program under A.I.D. management, through 1986. Table 2-1 lists the countries in which A.I.D. had programs in FY 1962 and FY 1986. In 1962, A.I.D. was assisting 85 countries. By 1986, A.I.D. was assisting 76 countries and had resident Missions or offices in some 63 countries.

Thirty-two of the countries assisted by A.I.D. in 1962 were no longer receiving assistance in 1986; of these the Ivory Coast, Korea, Taiwan, Colombia, Mexico, Paraguay, Trinidad and Tobago, and Venezuela can be described as "graduates" in the sense that they developed beyond the need for concessional assistance. The others experienced large income increases from oil exports, had been receiving assistance for extraordinary reasons in the first place (Japan, Berlin), or are no longer receiving assistance for a variety of political reasons.¹ Twenty-three of the countries receiving assistance in 1986 had not been receiving assistance in 1962. Seventeen of these are Sub-Saharan African countries, reflecting the two facts that some were only entering into nationhood in 1962 and that they have low incomes (and--a special case--that of U.S. assistance to black South Africans).

Over the 25 years of A.I.D.'s existence, the largest share of Development Assistance and Economic Support Fund resources has been allocated to the Asia and Near East Region. (The other administrative divisions of countries within A.I.D. are the Africa Region and the Latin America and Caribbean Region.) Because A.I.D. programs in Europe are now few in number and simple to

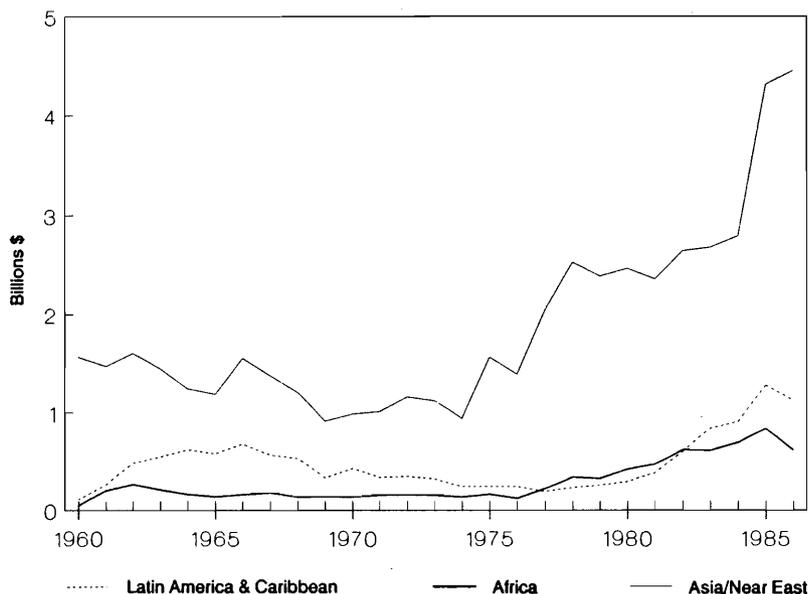
¹A.I.D. maintains Missions in Tanzania and Peru, although in 1986 no new assistance was being initiated because the countries were more than 12 months late in repaying official debts to the United States. Although A.I.D. no longer operates an economic development program in Ethiopia, the Agency played a major role in providing emergency food in recent years.

Table 2-1. Countries Receiving Development Assistance or Economic Support Fund Assistance in FY 1962 and FY 1986

Countries Assisted in FY 1962		Countries Assisted in FY 1986	
AFRICA		AFRICA	
Cameroon	Mali	Republic of Botswana	Mali
Central African Republic	Niger	Burkina Faso	Nauritania
Chad	Nigeria	Burundi	Mauritius
Congo	Senegal	Cameroon	Mozambique
Dahomey (Benin)	Sierra Leone	Cape Verde	Niger
Ethiopia	Somali Republic (Somalia)	Central African Republic	Rwanda
Gabon	Southern Rhodesia (Zimbabwe)	Chad	Sao Tome & Principe
Ghana	Sudan	Coworos	Senegal
Guinea	Tanzania	Congo	Seychelles
Ivory Coast	Togo	Djibouti	Sierra Leone
Kenya	Uganda	Equatorial Guinea	Somalia
Liberia	Upper Volta (Burkina Faso)	Gambia	South Africa
Malagasy Republic (Madagascar)	Zaire	Ghana	Sudan
Malawi	Zambia	Guinea	Swaziland
		Guinea-Biseau	Togo
		Kenya	Uganda
		Lesotho	Zaire
		Liberia	Zambia
		Madagascar	Zimbabwe
		Malawi	
ASIA/NEAR EAST		ASIA/NEAR EAST	
Afghanistan	Korea	Afghanistan	Morocco
Algeria	Leos	Bangladesh	Nepal
Burma	Lebanon	Burma	Oman
Cambodia	Libya	Cyprus	Pakistan
Ceylon (Sri Lanka)	Morocco	Egypt	Philippines
China, Republic of (Taiwan)	Nepal	Fiji	Sri Lanka
Cyprus	Pakistan	India	Thailand
Egypt	Philippines	Indonesia	Tunisia
Greece	Spain	Israel	Turkey
India	Syria	Jordan	Yemen
Indonesia	Thailand	Lebanon	
Iran	Tunisia		
Iraq	Turkey		
Israel	Vietnam		
Japan	Yemen Arab Republic		
Jordan			
EUROPE		EUROPE	
Berlin	Yugoslavia	Poland	Spain
Iceland		Portugal	
LATIN AMERICA AND CARIBBEAN		LATIN AMERICA AND CARIBBEAN	
Argentina	Haiti	Belize	Haiti
Bolivia	Honduras	Bolivia	Honduras
Brazil	Jamaica	Costa Rica	Jamaica
British Honduras (Belize)	Mexico	Dominican Republic	Panama
Chile	Nicaragua	Ecuador	Peru
Colombia	Panama	El Salvador	Uruguay
Costa Rica	Paraguay	Guatemala	
Dominican Republic	Peru		
Ecuador	Suriname		
El Salvador	Trinidad & Tobago		
Guatemala	Uruguay		
Guyana			

administer, they are handled by the Bureau for Asia and the Near East. Consequently, A.I.D. statistics for the Asia and Near East Region include those for assistance to some European countries. Figure 2-1 traces the combined flow of Development Assistance and Economic Support Fund resources to the three regions between 1962 and 1986. Table 2-2 summarizes the individual shares of Development Assistance, Economic Support Fund, and PL 480 among the regions for 1962, 1975, and 1986.

Figure 2-1. Combined Development Assistance and Economic Support Fund Flows, by Region (current dollars)



The Asia and Near East Region share of Development Assistance and Economic Support Fund resources has been influenced substantially by the resource flows to South Vietnam, Israel, and Egypt. Figures 2-2 and 2-3 trace the Development Assistance and Economic Support Fund flows to these three economies. Economic Support Fund has been the dominant form of assistance for all three countries.

Historically, the largest share of PL 480 has gone to countries in the Asia and the Near East Region, but in the late 1970s the levels of PL 480 to Africa and Latin America began to rise while those to the Asia and Near East Region began to decline (see Figure 2-4).

Table 2-2. Allocation of Economic Assistance
by Type Among Regions, 1962, 1975, and 1986
(percentages)

Region/Type of Assistance	1962	1975	1986
Asia/Near East			
Development Assistance	63.34	50.22	34.47
Economic Support Fund	75.67	99.99	81.60
PL 480	85.98	80.76	54.94
Latin America/Caribbean			
Development Assistance	24.25	29.81	35.99
Economic Support Fund	13.44	0.01	13.41
PL 480	9.32	10.25	19.48
Africa			
Development Assistance	11.41	19.97	29.54
Economic Support Fund	10.89	0.00	4.99
PL 480	4.70	8.99	25.58

Figure 2-2. Development Assistance Flows to
Israel and Egypt and to South Vietnam

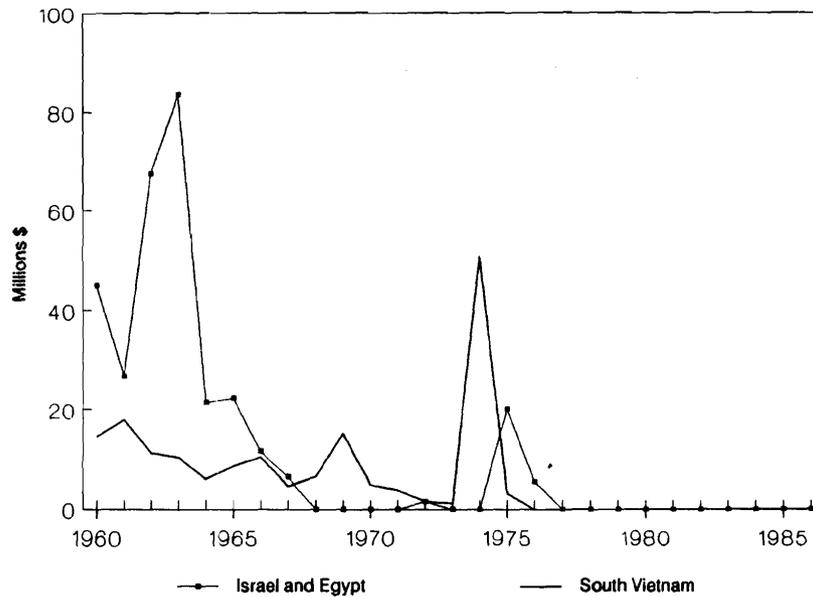


Figure 2-3. Economic Support Fund Flows to Israel and Egypt and to South Vietnam

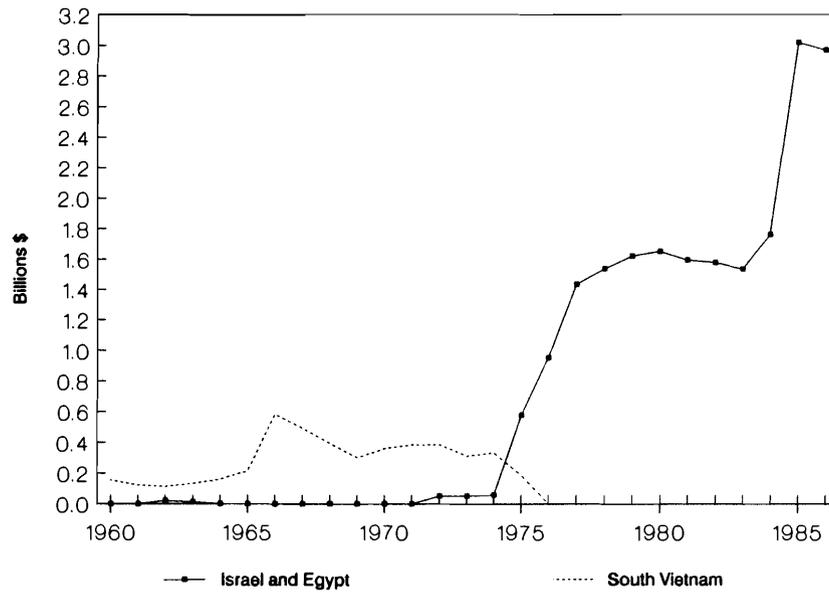
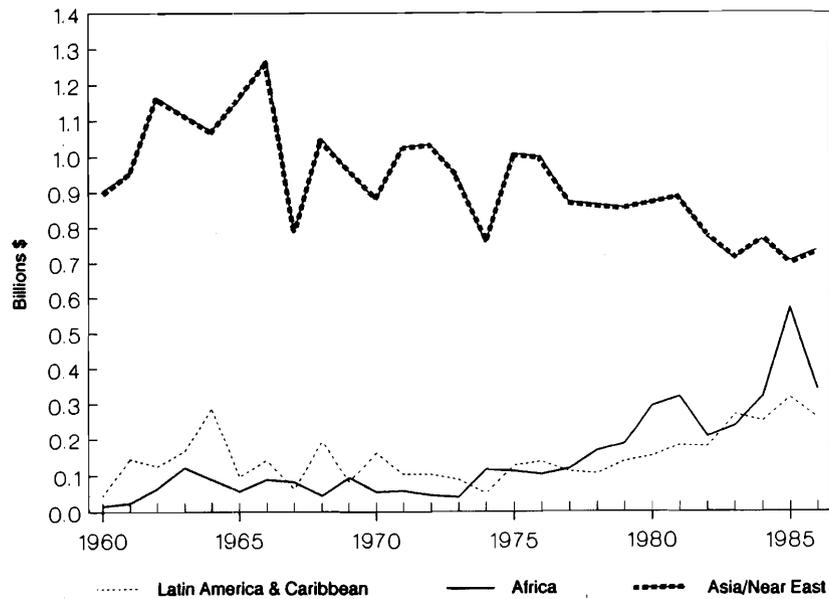
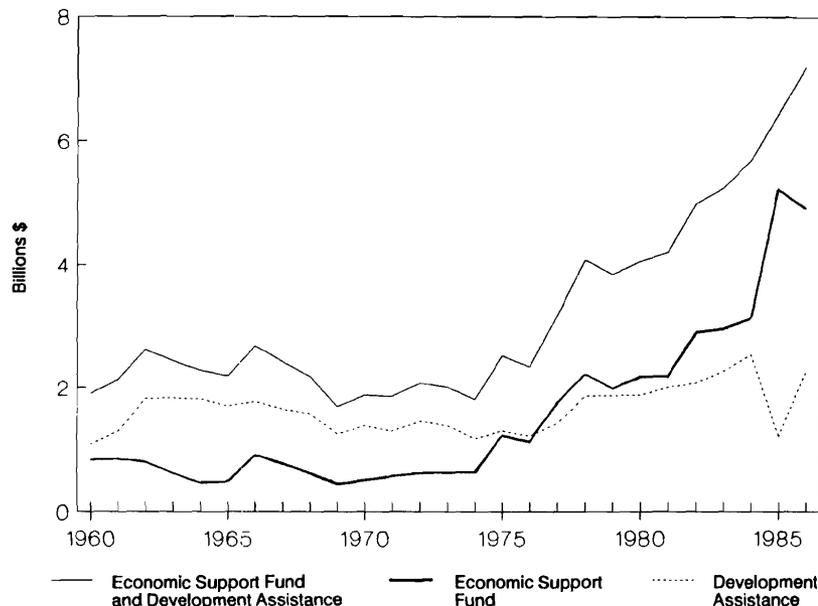


Figure 2-4. PL 480 Flows, by Region



The combined annual levels of Development Assistance and Economic Support Fund, measured in current dollars, have gone through two major phases between 1962 and 1986. Figure 2-5 shows that combined levels remained in the range of \$1.7 to \$2.7 billion per year until 1976, then started to rise, reaching a high of \$7 billion in 1986. The post-1976 rise was attributable mainly to increasing Economic Support Fund flows, which exceeded Development Assistance flows for the first time in 1977.

Figure 2-5. Comparison of Development Assistance and Economic Support Fund Flows in Current Dollars



When measured in current dollars, changes in Development Assistance and Economic Support Fund flows over the period 1960-1986 reflect both real changes in the amount of economic assistance and changes in the inflation rate. Because the rate of inflation in the United States varied sharply between 1960 and 1986, real change in economic assistance can be observed more clearly once the price fluctuations are removed by converting the nominal figures into constant dollars. Figure 2-6 shows that the value of combined Development Assistance-Economic Support Fund flows expressed in constant (1982) dollars was less in 1986 (\$6.2 billion) than it was in 1962 (\$8.2), with a \$5.4 billion average level during the intervening years. Three periods are discernible in the 1982-dollar value of combined Development Assistance-Economic Support Fund flows: (1) a decline from 1962 to 1969, (2) a trough period between 1969 and 1976, followed by (3) a period of erratic growth through the late 1970s to 1986.

Figure 2-7 shows the sum of Development Assistance, Economic Support Fund, and PL 480 flows expressed as proportions of U.S. GNP and of Federal Government purchases of goods and services (defense and nondefense). The proportions declined from a peak of 0.75 percent of GNP in 1962 to 0.21 percent in 1986 and from a

peak of 6.7 percent of total Federal expenditure in 1962 to 2.4 percent in 1986.

Figure 2-6. Comparison of Combined Development Assistance and Economic Support Fund Flows in Current and in Constant (1982) Dollars

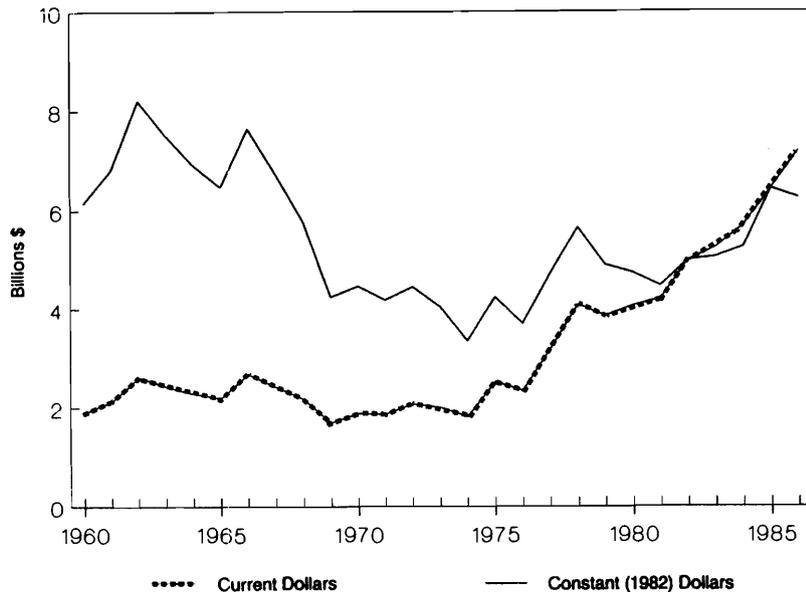
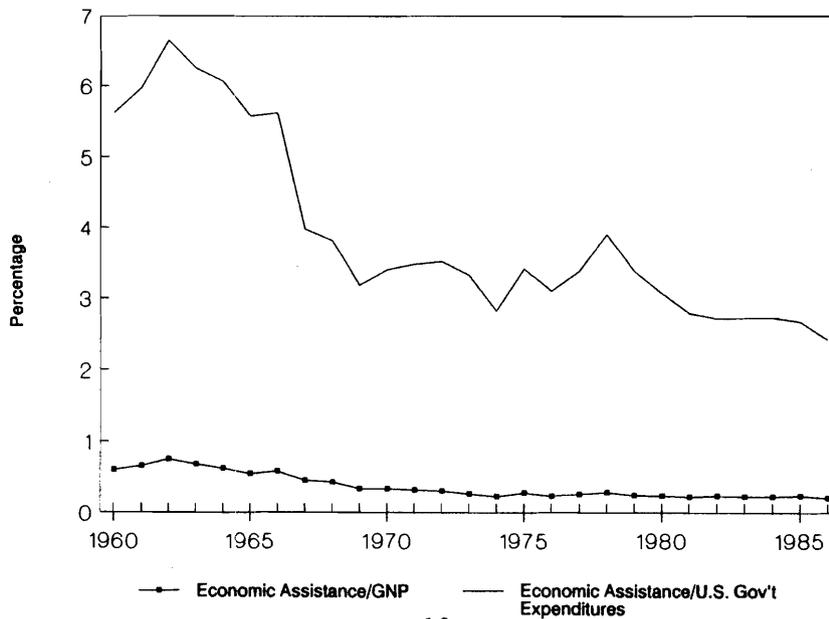


Figure 2-7. Combined Development Assistance, Economic Support Fund, and PL 480 Flows as a Percentage of GNP and U.S. Government Expenditures



2.5 A.I.D. CONTRIBUTIONS TO THE ECONOMIC DEVELOPMENT PROCESS

If one key contribution by A.I.D. were to be chosen, it would be the Agency's instrumental role in improving understanding of the economic development process and of how to address it. A.I.D. activities are typically thought of in terms of projects and various kinds of program support. But A.I.D. has sought to open up the development process through experiment, research, example, and dialogue with host countries and with other donors. A.I.D. has frequently led other donors to recognize and cope with specific development problems, although seldom has A.I.D. been a single actor. Other agencies of the U.S. Government (see Chapter 3), Congress, foundations, private organizations, multilateral institutions, and other donors have participated in the process and often interacted with A.I.D. to attack a problem. Nevertheless, as a major designer and implementor of development assistance, A.I.D. has learned some important lessons and applied and disseminated them. It is in this context that the following contributions are described.

2.5.1 Agriculture

A.I.D. has made major contributions to increasing food production in developing economies. Because A.I.D. and other donors joined with developing countries two and one-half decades ago, developing countries are able to feed over 500 million more people today than otherwise would have been possible. A.I.D. has been instrumental in improving developing countries' agricultural capacities, developing new agricultural technologies, and adapting existing technologies.

The approach to these activities, in itself, constitutes an important contribution as well. One significant approach in this regard has been through the U.S. land grant universities, whose participation has made a distinctive contribution to developing countries. Another contribution has been the "practical" approach used by A.I.D., that is, the Agency's strong emphasis on the applicability of assistance measures. A.I.D.'s research, training, and extension activities tend to be problem oriented.

One of the Agency's most outstanding accomplishments has been its contribution to the establishment of an international agriculture research system. In the early 1960s, the task of increasing agricultural production was thought to be a simple one of merely shifting or transferring existing knowledge to developing countries. A change in assistance practices began to take place in the 1960s and eventually included three elements: bilateral support for research organizations in developing nations, multilateral support for international agricultural research centers, and support for research in the United States oriented toward the needs of developing nations.

The international agricultural research centers and the U.S. institutions developed technologies that were then adapted to local conditions in the developing nations. The system is still under development but has proved to be a powerful tool. The international agricultural research centers, of which there are

now about 20, are a keystone in the structure. Some 13 of these centers are sponsored through the Consultative Group on International Agricultural Research (CGIAR), an informal organization of donors formed to ensure coordination and to prevent duplication among the centers.

A.I.D. started regular funding of some international agricultural research centers in 1969 and 1970 and helped establish the CGIAR in 1971. Through 1986, A.I.D. has contributed about 25 percent of the total funding provided by the members of CGIAR (in 1987, the proportion will, for the first time, drop sharply to about 21 percent because of U.S. budget constraints). A.I.D. also helped establish and contributes to the funding of several centers that are not part of the CGIAR. Research at U.S. universities is sponsored through a Collaborative Research Support Program, which involved eight major lines of activity in 1986, and through direct grants. National efforts are sponsored through A.I.D.'s regional bureaus and often involve cooperation with, and assistance from, the international agricultural research centers and U.S. universities.

New technologies developed in these programs have been widely adopted in developing nations; in 1983-84, about half of the wheat and rice-growing areas in developing nations was planted to high-yielding varieties developed within this network. The flow of new and improved technology is increasing and becoming more diversified. Greater attention is being given to conservation of natural resources and the environment. The result of the adoption of these technologies and related developments has been an increase in domestic food supply and lower food costs in developing countries. The major beneficiaries have been poor consumers, both urban and rural, who spend a large proportion of their income on food.

A.I.D. has helped developing countries build up their own agriculture production capacities by increasing the countries' abilities to conduct research, to spread new technologies, to provide services to agriculture, to use their irrigation potential, and to provide higher education in agriculture. Wheat production gains in Tunisia illustrate the end results of these activities. The use of new varieties of wheat increased production by over 5.3 million metric tons between 1971 and 1981, equivalent to an increase in per capita wheat production from 104 to 160 kilograms per year. In Kenya, the widespread adoption of hybrid maize substantially helped achieve the goal of self-reliance in this food staple. Indonesia achieved similar results for rice production in the 1970s and 1980s.

A.I.D. has been a strong proponent of improving the delivery of agricultural technology in developing countries. A.I.D. funded some 1,000 agricultural extension projects between 1975 and 1984. By the mid-1970s, most of A.I.D.'s extension activities were aimed at disseminating specific research results. During the 1980s, A.I.D. began developing new extension approaches, including strengthening public extension systems by blending their operations with those of the private sector. In the Philippines, for example, an A.I.D. project combined a privately managed marketing campaign, an agricultural credit program, and a public extension

effort to transfer improved rice growing technology to nearly 650,000 farmers.

The Agency has reduced the time between development and adoption of new technologies by strengthening the linkages between research and extension. This has been accomplished by increasing the involvement of farmers through on-farm study of the "fit" of new technologies with the farmers' own production systems.

A.I.D. provided major funding for the development of one or more agricultural universities in practically every Asian and Latin American country from the 1950s to the 1970s. In India, A.I.D. funded nine university programs. In Africa, A.I.D. made substantial contributions to advanced agricultural education in Nigeria, Ethiopia, Tanzania, Morocco, Malawi, Sierra Leone, and Kenya. A.I.D. continues to be active in agricultural higher education in Cameroon, Pakistan, Morocco, and countries in Central America.

2.5.2 Education and Training

From its beginning 25 years ago, A.I.D. recognized the critical importance of investment in human resources. One of A.I.D.'s most significant contributions has been its insistence that investment in human resources development is an essential part of economic development, not just a social service or a consumption good. Thus, A.I.D. has used education and training of host country nationals as one of the principal means of expanding the development capacities of developing countries in such areas as agriculture, health, and population. Almost every A.I.D. development assistance activity includes a training component.

A.I.D. has played a major role in drawing attention to the education needs of girls and women and has helped to extend access to education to remote areas whose isolation and poverty would otherwise have been a barrier to participation in national development. A.I.D. has been a leader both in emphasizing the importance of general education and in bringing about innovations in curriculum, teacher training, the use of media and communications technology to extend education, and the application of management systems for more efficient use of resources.

The Agency has also provided professional training to thousands of men and women, many of whom are now national policymakers in developing countries. Former participants continue to maintain professional ties to the U.S. institutions at which they studied. In almost every instance, institutions established under Agency auspices are still in operation, providing an essential mechanism for technology transfer and professional exchange.

A.I.D. has emphasized education and training as a priority area for assistance in all regions of the world. A.I.D. was a leader in the early 1960s in recognizing the critical need in Africa for rapid expansion in education programs, particularly in professional and technical education. The response included major initiatives in undergraduate and, later, graduate participant training and in the creation of numerous educational institutions in Africa. These institutions are now staffed largely by Africans

and supply the professional leadership for much of African development. These programs have had a profound impact on African education. The same approach to human resources development--helping to establish an ongoing capacity to train and educate across the entire spectrum of society in a developing country--also describes A.I.D. programs in Latin America and the Caribbean and Asia and the Near East. (See Section 5.2.1 for further discussion of education and training activities.)

2.5.3 Population

The Agency's work over the last two decades has resulted in a worldwide recognition of the relationship between population growth rates and economic development and in the development of appropriate program responses. A.I.D. continues to lead this effort.

Over the last 20 years, A.I.D. has obligated more than \$2.7 billion for population assistance, making the Agency the leading supporter of family planning programs in developing countries. The effects of A.I.D.'s population programs are evident in the development of family planning programs and population policies in developing countries, in rising rates of contraceptive prevalence, and in reductions in levels of fertility and infant mortality.

Other significant accomplishments by A.I.D. in the field of population are the following:

- **Policy.** A.I.D. has furthered the policy development process in developing countries by supporting censuses and demographic surveys, educating national leaders on the determinants and consequences of rapid population growth, and assisting policy planning and evaluation efforts.
- **Contraceptive Use.** In several developing countries where A.I.D. has invested significant population resources, the proportion of married couples using contraception has increased dramatically. Of the 18 A.I.D.-assisted countries with survey data on recent trends, 13 have experienced a substantial increase in contraceptive prevalence during the past decade.
- **Demographic Impact.** Between 1970 and 1985, the crude birth rate for developing countries declined from 41 to 36 per 1,000 population. Numerous scientific studies have documented the important contribution of family planning programs to this observed reduction in fertility.

(See Section 5.2.2 for further discussion of population activities.)

2.5.4 Health

Before A.I.D. was created in 1961, U.S. efforts in international health were not closely linked to economic development.

With the creation of A.I.D., health programs were incorporated with overall economic development efforts, based on the idea that healthy people are more productive workers and that economic development hinges on improving productivity.

Many of the programs that have or are starting to yield major results today were initiated by A.I.D. in the mid-1960s. There are several examples of outstanding accomplishments. The struggle to develop a malaria vaccine started in 1966 when A.I.D. initiated a program using biomedical research techniques. Over the next 10 years the Agency funded research efforts and established a network of research institutions in the United States. After a breakthrough in 1975 that established the feasibility of developing a malaria vaccine, A.I.D. expanded the research network to include foreign research centers. Finally, in 1985, a prototype synthetic vaccine was developed.

In 1969, A.I.D. made a unique contribution by creating the International Center for Diarrheal Disease Research in Bangladesh. The United States took the leadership in creating the Center as the first independent, international health research center. Similar to the CGIAR international research centers, A.I.D. offered the Center in Bangladesh as a model to attract funding and push forward health research.

In the early 1970s, as a means of producing the greatest benefit for the largest number of people in poor economies, A.I.D. adopted a strategy emphasizing primary health care services. The strategy stressed preventive health measures and the development of health technologies that were feasible and could be sustained in poor economies. A.I.D. then became instrumental in convincing other bilateral donors to adopt a similar approach.

In 1977, smallpox was eradicated. A.I.D. supported the work of the U.S. Centers for Disease Control in the West African measles and smallpox program and in the campaign in Ethiopia.

A.I.D. is continuing to refine its long-term effort to maximize the benefits of dollars spent on health in developing countries. In 1984, it initiated the Child Survival Action Program. This program encompasses several areas relating to the health of young children, including oral rehydration therapy, immunization, nutrition, and maternal and child health care. The Child Survival Action Program combines two of the best features characterizing A.I.D.'s approach over 25 years: (1) use of advanced technology to develop health measures that are low cost and can be widely used and (2) selection of measures that address health problems afflicting large segments of developing country populations. (See Section 5.2.3 for further discussion of health activities.)

2.5.5 Women in Development

A.I.D. was the first among international donors to recognize explicitly the critical importance of women in the economic development process and to develop policies and programs in accordance with this recognition. The Agency's Women in Development Program has and will continue to exert major influence on the thinking of many donors and of many developing countries on the role of women

in development. (See Section 5.2.7 for further discussion of women-in-development activities.)

2.5.6 Donor Coordination

Chapter 1 noted that the United States was a major influence in encouraging other industrial economies to increase their support for international economic development. As a corollary to this effort, the United States was also instrumental in promoting coordination among donors. An important coordinating institution was established in 1960 when the United States initiated the establishment within the Organization for Economic Cooperation and Development (OECD) of the Development Assistance Committee (DAC) to help ensure the coordination of aid programs and the monitoring of other countries' aid efforts (World Bank, IDA in Retrospect, p.3).

A.I.D. has continued the effort to increase and improve coordination among donors. It has been a fundamental tenet of A.I.D. policy to encourage other donors to participate in international development, to mobilize larger aid flows, and to encourage greater coherence and effectiveness in development aid. The Agency has worked in several different ways to facilitate coordination and improve the quality of economic assistance to developing economies. Some examples:

- A.I.D. has mobilized international resources to respond to periods of famine and subsequent efforts to concentrate resources on food production problems.
- A.I.D. was a driving force behind establishment of the Club du Sahel, a consortium of donors and Sahelian countries that was created to mobilize and coordinate provision of assistance to the Sahel region.
- More recently, A.I.D. has been behind a strong U.S. effort to strengthen the consultative group process and to place the World Bank in the forefront of international aid coordination efforts.

2.5.7 Economic Policy Reform

A.I.D. has always emphasized the importance of a developing country's economic policies as a crucial determinant of its economic development performance. This fact alone has made A.I.D. unique among bilateral donors. Over the years, A.I.D. has also influenced the policies of multilateral financing institutions in several areas including the environment, equity concerns, the role of women in development, and developing countries' economic policies such as those concerning the private sector.

A.I.D. has worked at all levels to improve developing country economic policies, ranging from the individual country level to international forums and support for research. In support of research, for example, A.I.D. collaborated with the National Bureau of Economic Research on two major projects (Foreign Trade Regimes and Economic Development, 1978, 12 vol.; and Trade and

Employment in Developing Countries, 1981, 3 vol.) to document and analyze the relationship between selected aspects of economic liberalization and growth.

In the Sahel during the mid-1970s, A.I.D. was the only bilateral donor to call attention to recipient country policies that were inhibiting long-term economic growth. As a result of A.I.D.'s initiative and persistence, economic policy issues that were previously closed to discussion are now routinely discussed, factored into development decisions, and modified.

A.I.D. led the way among bilateral and multilateral donors in the early 1980s in redirecting its own policies to address developing country economic policy problems, to liberalize developing country economic policy regimes, and to increase the role of the private sector in developing countries. To implement this major reform initiative, A.I.D. introduced a full array of measures including instituting economic policy discussions between USAID Missions and host governments (policy dialogue), placing a greater stress on making assistance conditional on policy reform, phasing disbursements, and designing programs to directly assist the private sector in developing countries. Other bilateral and multilateral donors have modified their development strategies to put more emphasis on economic liberalization and expansion of developing country private sectors.

2.5.8 Conclusion

The preceding examples of A.I.D. contributions demonstrate why the Agency has been a major creative force in economic development over the past 25 years. A.I.D. has had sufficient freedom and strength to experiment, to explore untried paths, and to differ with other donors and with host governments when it perceived that the best long-term interests of economic development were not being served. A.I.D., as an economic development institution, has been able to extend far beyond its institutional limits by tapping the vast and powerful intellectual and technical resources of the United States and applying them to the process of accelerating economic development in the Third World.

CHAPTER 3

OTHER U.S. GOVERNMENT ECONOMIC ASSISTANCE PROGRAMS

3.1 DEPARTMENT OF AGRICULTURE

The U.S. Department of Agriculture (USDA) plays a key role in assisting agriculture in developing countries, working in close cooperation with A.I.D., other bilateral and multilateral assistance organizations, and the private sector. USDA's international involvement includes co-responsibility with A.I.D. for the administration of Public Law (PL) 480 food aid, reimbursable technical assistance and training programs, international research, scientific and technical exchange programs, collaborative assistance to control animal and plant pests and diseases, and technical assistance carried out as part of market development activities.

The Office of International Cooperation and Development is responsible for managing and coordinating the USDA's international programs. Although the USDA receives no direct appropriations, it provides a wide range of technical assistance and training support, carried out under participating agency and resources support agreements with A.I.D. or under reimbursable agreements with international organizations and foreign governments. To carry out these agreements, the USDA draws on the capabilities of 15 USDA agencies and services, U.S. land grant universities, and the private sector.

In FY 1986, the USDA provided roughly 760 agricultural specialists to 87 developing and middle-income countries. Over 70 percent of the specialists were drawn from USDA services and agencies. The USDA provided short-term and professional training for 2,000 agriculturalists from 110 developing and middle-income countries, both in the United States and in the countries themselves. Academic programs and technical short courses, on-the-job training, and observation study tours are specially designed to meet the needs of the international participants and the countries they represent.

In addition, the USDA sponsored nearly 700 international cooperative and binational research projects in 22 countries to help farmers in both the United States and the developing countries increase productivity and revenues and reduce losses caused by livestock and crop diseases and pests. The USDA also sponsored 116 scientific and technical exchanges with 33 countries. These allowed specialists in many disciplines to share information and genetic materials necessary for the maintenance of disease- and pest-resistant cultivars. These programs recognize that the flow of benefits is no longer unidirectional and that both the United States and the developing countries benefit. The USDA, through cooperative agreements with developing countries and international organizations, is actively engaged in programs to control and eradicate animal and plant diseases and pests, such as the Mediterranean fruit fly, screw worm, and foot-and-mouth disease in Central America and the Caribbean.

The USDA maintains a cofinanced cooperator program with approximately 50 nonprofit commodity associations in order to design and maintain jointly sponsored foreign market development activities. The associations provide technical services that enable importing countries to improve the efficiency of processing and marketing enterprises and livestock production.

3.2 DEPARTMENT OF LABOR

Since 1884, when research on foreign labor conditions became a statutory function of the "Bureau of Labor," the Department of Labor (DOL) has been an active--if sometimes little noticed--member of the U.S. foreign affairs community. DOL's foreign economic assistance activities can be traced back to 1940, when DOL began its "exchange of persons" activities with Latin American republics. DOL assistance to other nations significantly increased after Truman's Point Four program of 1949, and DOL has been a member of the Development Coordination Committee since 1961. Since then, DOL has carried out a full range of international development assistance activities--hosting foreign visitors, arranging or providing training, providing short- and long-term overseas technical advisers, and managing or implementing a variety of development assistance projects in developing nations.

Two components of DOL, the Bureau of Labor Statistics and the Bureau of International Labor Affairs, organize the majority of DOL's development assistance activities, although all DOL components are called on frequently on an ad hoc basis. DOL offers developing countries its expertise and assistance, ranging from new techniques in collective bargaining available through the Bureau of Labor Management Relations and Cooperative Programs, prevention of work-place injuries and illness through the Occupational Safety and Health Administration, to consulting by DOL's Women's Bureau on the role of women in the work-place. An example of the range of DOL international assistance was the dispatch during FY 1986 of experts from the Mine Safety and Health Administration to Mexico City to help locate victims trapped in the debris from that city's tragic earthquake.

The technical assistance activities of the **Bureau of Labor Statistics (BLS)** are undertaken primarily by its International Labor Statistics Program Center, which has provided training to economists, statisticians, and other producers and users of social, economic, and labor statistics since 1946. Early BLS training activities were longer (6- to 12-month) programs on methodologies and procedures for collecting, tabulating, and presenting statistical data. The BLS has adapted its program to meet the changing needs of the developing world and to reflect state-of-the-art statistical techniques. Each year, the BLS conducts 10 to 12 seminars of 3 to 8 weeks' duration. Most participants now come from developing countries, and the scope of instruction has broadened to emphasize the analysis and application of data to planning and decision-making by government and the private sector. During FY 1986, more than 150 participants from 26 countries took part in 11 Washington-based seminars. The BLS also presented a training seminar in Malaysia for 36 participants and a program in Mexico for 62 participants.

The BLS also arranges specialized training programs and consultations in Washington, D.C. for individual participants, based on their particular needs and requests. Such specialized programs, ranging from 1/2 day to 1 year in duration, were arranged for 372 persons during FY 1986. BLS staff also served as long-term technical advisers and as A.I.D.-financed short-term consultants to developing countries during the year.

The Bureau of International Labor Affairs organizes or provides the majority of DOL's international technical assistance under a variety of arrangements that reflect the diversity of U.S. development assistance to developing countries. The Bureau administers a large international visitors program, arranging short- or long-term U.S. training or consultations for trade unionists, labor ministry officials, vocational trainers, and others from the developing world. A large part of this visitors program is funded by A.I.D.'s Bureau for Science and Technology, and other visitors are supported by the U.S. Information Agency, the International Labor Organization, multilateral development banks, or other resources. During FY 1986, an increasing number of foreign visitors were exposed to modern vocational training techniques and technologies in DOL's Center for Advanced Learning Systems.

A key element of DOL's foreign technical assistance is the International Technical Assistance Corps, created in 1964 to provide a pool of highly qualified experts in labor-related fields for short- and long-term overseas assignments. Areas of DOL international expertise range from designing unemployment and other social security programs to assessing labor market conditions and employment policy, improving labor-management relations, and designing or operating vocational training programs.

During FY 1986, members of DOL's International Technical Assistance Corps undertook both short- and long-term assignments at the request of A.I.D., joined with the Trade and Development Program in overseas missions under authority of section 661 of the Foreign Assistance Act, and continued DOL's program of reimbursable technical assistance to developing nations under section 607(a) of the act. Of particular note in this area are DOL's Vocational and Technical Education Project for the Commonwealth of the Bahamas, which is supported by the World Bank, and its vocational training and construction (VOTRAKON) project in Saudi Arabia. The project is now in its 10th year, and as one of the largest vocational/technical training projects in history, the project is a significant example of DOL development assistance.

3.3 DEPARTMENT OF TREASURY

The Department of Treasury's role in foreign assistance activities has traditionally been one of development and formulation of international economic and financial policies and programs relative to developing nations. To that end, the Department is active in U.S. Government and international forums relating to developing country economic and financial issues and multilateral and bilateral development assistance.

The Secretary of Treasury serves as Governor of the World Bank, the Inter-American Development Bank (IDB), the Asian Development Bank, and the African Development Bank. A significant portion of U.S. multilateral development assistance is extended through these four institutions. The Treasury Department plays a leading role in advancing growth-oriented programs of macroeconomic and structural adjustment and seeks to ensure the effective use of development funds. Treasury staff provide background support on a wide variety of issues for the U.S. executive directors serving at each of these institutions.

The International Finance Corporation (IFC), an affiliate of the World Bank, has particular interest in the growth of productive private investment in its developing country members. The Treasury Department follows issues that come before the IFC's board and provides support and advisory services for the executive director on a broad range of issues. Similarly, the Inter-American Investment Corporation of the IDB will serve as a catalyst for private sector development in Latin America.

The National Advisory Council on International Monetary and Financial Policy, created in 1945 by the Bretton Woods Agreement Act and reorganized by executive order in 1965, is chaired by the Secretary of Treasury. Its members are the Departments of State and Commerce, the International Development Cooperation Agency (IDCA)/A.I.D., the Office of the U.S. Trade Representative, the Export-Import Bank, and the Federal Reserve. The Council's Staff Committee meets weekly to coordinate U.S. participation in international financial institutions and to coordinate the policies and practices of U.S. Government agencies that extend foreign loans or engage in foreign financial exchange or monetary transactions.

Since 1978, the Working Group on Multilateral Assistance (WGMA) has had responsibility for reviewing the development aspects of proposed multilateral development bank loans and credits. WGMA, a working group of the Development Coordinating Committee (DCC), is chaired by the Department of Treasury. WGMA members include the Departments of State, Agriculture, and Commerce; IDCA/A.I.D.; the Export-Import Bank; the Office of Management and Budget; and the National Security Council. WGMA has weekly staff meetings to study proposed individual loans, to review basic policy and budgetary questions affecting U.S. participation in multilateral development banks, and, as appropriate, to identify issues for consideration by the subcommittee or the full DCC.

The Department of Treasury also has an active role in the DCC Subcommittee on Food Aid Programs. The Department of Treasury thus is involved in the extension of bilateral assistance through the PL 480 (Food for Peace) and Food for Progress programs.

The Department of Treasury is also active in various international and interagency activities, including the following:

- **United Nations (U.N.)** and its specialized agencies and bodies. The Department of Treasury exercises an advisory role on economic and financial issues affecting development that come before various U.N. organizations, including the General Assembly, the United Nations Development Program (UNDP), the United Nations Conference on Trade

and Development (UNCTAD), and the International Fund for Agricultural Development (IFAD).

- **Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD).** The Department of Treasury provides staff support and advice to the U.S. representative concerning the Committee's work on a wide range of issues to enhance the assistance activities of OECD countries.
- **Overseas Private Investment Corporation (OPIC).** The Assistant Secretary for International Affairs is a member of the board of OPIC, which facilitates the flow of foreign direct investment in developing countries.
- **Development Committee.** The Secretary of the Treasury serves as the U.S. member of the Development Committee, which is a joint International Monetary Fund (IMF)/World Bank committee of economics and finance ministers, who meet semiannually to exchange views on problems affecting developing countries.

3.4 DEPARTMENT OF COMMERCE

The International Trade Administration (ITA) of the Department of Commerce carries out the U.S. Government's nonagricultural foreign trade activities. It encourages and promotes U.S. exports of manufactured goods, administers U.S. statutes and agreements dealing with foreign trade, and advises on U.S. international trade and commercial policy. Even though ITA's primary mission is to strengthen U.S. trade and increase exports, it also provides services that facilitate investment and thus contribute to private sector growth in developing countries. ITA's major units involved in servicing U.S. businesses interested in investing in developing countries are described below.

The U.S. and Foreign Commercial Service (US&FCS) offers U.S. businesses coordinated investment assistance both in the United States and abroad. Overseas, the US&FCS maintains offices in 120 major foreign cities in 63 countries and provides a full range of business, investment, and financial services. These include political and credit risk analysis; advice on market entry strategy; and major project identification, tracking, and assistance. FCS officers identify investment opportunities, including joint venture partners for U.S. firms, and supply data on country trends affecting investment and business conditions and on investment prospects for specific industries. Domestically, the US&FCS operates 47 district offices in industrial and commercial centers throughout the United States. The district offices provide U.S. companies with information on investment opportunities abroad and on economic conditions in particular countries.

The Caribbean Basin Business Information Center is a specialized unit in US&FCS charged with facilitating investment and trade between entrepreneurs in the United States and Caribbean countries.

International Economic Policy (IEP) provides commercial and economic information on a country-specific or multilateral basis. IEP country specialists provide information on specific overseas investment opportunities, foreign market conditions, commercial and investment policies, business practices, and economic and political developments. IEP country specialists also assist in resolving problems that U.S. firms encounter overseas. The IEP has sponsored a series of seminars on "Doing Business in..." and will continue to sponsor country- or region-specific seminars on trade and investment practices and policies in selected developing countries. The IEP also organizes overseas trade and investment missions to select developing countries, with assistance from ITA industry specialists. The IEP has also assisted several "reverse" investment missions from developing countries to the United States, in order to increase contacts between these countries and U.S. businesses. In the multilateral organizations involved in investment matters, the IEP is working to promote greater understanding of the economic benefits of foreign direct investment and to liberalize the international investment environment, especially in developing countries.

3.5 DEPARTMENT OF STATE

The Department of State has a major policy and allocative role in U.S. Government development assistance programs. The Secretary of State is the President's principal adviser on development policy and oversees the entire U.S. foreign assistance program. The Undersecretary for Economic Affairs helps set the general outlines and priorities of the U.S. development assistance philosophy. He is also the Alternate U.S. Governor in the World Bank, Inter-American Development Bank, Asian Development Bank, and African Development Bank. The Department works with the Treasury Department in establishing and implementing U.S. development policy toward these multilateral development banks.

The Undersecretary for Security Assistance, Science and Technology consolidates the formulation of all foreign assistance accounts. He focuses particular attention on the allocation of the Economic Support Fund. The Economic Support Fund is administered in most cases by USAID Missions. However, when A.I.D. has no Mission or office in the country, State Department personnel administer the program.

The State Department and U.S. ambassadors administer a small self-help fund (included in the annual Foreign Aid bill) in African countries. The funds enable an Ambassador to provide seed money for small-scale community action projects.

The Department also administers a small Human Rights Fund for Africa. The program fosters human rights and the rule of law through such activities as training courses for legislative and judicial personnel and assistance in drafting national charters and procurement of relevant reference materials.

CHAPTER 4

ECONOMIC GROWTH AND DEVELOPMENT OF DEVELOPING COUNTRIES

4.1 ECONOMIC ENVIRONMENT FOR DEVELOPING COUNTRIES IN 1986

Developing countries continued to recover from global recession in 1986. Growth occurred despite a relatively minor increase in the volume of exports, a sharp decline in commodity prices, and an accompanying decline in the terms of trade. Aggregate real growth for 1986 is estimated by the World Bank to have been 3.4 percent. The rate is down from the 4.1 percent achieved in 1985, but substantially better than the rates of the recessionary years of 1981 through 1983. The overlapping subcategories of Asian economies and exporters of manufactures maintained their records of better growth. Many individual countries lagged behind the general recovery, however, experiencing serious economic difficulties.

Prospects for developing countries in 1987 are for a slightly higher average rate of growth of 3.9 percent. This rate is predicated on continued growth in the industrial countries, resistance to protectionist measures in both sets of countries, and the pursuit of growth-oriented policies by developing countries.

4.1.1 Recession and Recovery

Developing Countries Overall

In recent years developing countries as a group, but with vast differences among individual countries, have experienced recession and recovery. As Figure 4-1 clearly indicates, this cycle was closely synchronized with that in the industrialized countries. From the late 1970s through 1983 the aggregate real annual growth rate of developing countries declined sharply. The years 1982 and 1983 marked the trough of the recession. Only in 1984 did developing countries begin to recover. Growth in the industrial countries, led by the United States, assisted their recovery (see Table 4-1).

The Regional Impact

The pattern of real growth in developing countries varied widely by region. Countries in the Western Hemisphere experienced the greatest decline in total output. Foreign debt-servicing problems and domestic adjustments compounded the recessionary pressures. African and Middle Eastern countries also experienced negative growth. Developing countries in Asia, however, managed to maintain a respectable rate of growth even during the global recession. Their performance was due in large part to their economic adjustment to changing oil prices without excessive foreign borrowing. They also maintained flexible, market-oriented policies and economies. Figure 4-2 illustrates the growth paths of developing countries in all three regions.

Table 4-1. Real Growth of World Output: Industrial Countries and
Developing Countries by Region and Predominant Export, 1968-77 to 1987
(annual percentage change)

Category	1968-77	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987 ^a
World	4.4	4.5	3.3	2.0	1.6	0.5	2.6	4.4	3.1	2.8	3.1
Industrial Countries	3.5	4.2	3.4	1.2	1.4	-0.4	2.6	4.8	3.0	2.7	3.1
Developing Countries	6.2	5.1	4.3	3.5	2.2	1.6	1.4	4.1	3.2	2.7	2.9
By Region											
Asia	5.4	9.1	4.4	5.4	5.5	5.0	7.6	7.9	6.0	4.6	4.6
Europe	6.0	5.4	3.8	1.5	2.3	2.3	1.1	3.5	2.2	2.3	2.4
Middle East	9.2	1.7	2.3	-2.2	-1.8	-0.1	0.1	0.9	-1.2	0.0	0.1
Western Hemisphere	6.0	4.1	6.1	5.3	0.9	-1.0	-3.1	3.2	3.7	2.7	3.5
Africa	5.3	1.1	3.2	3.7	1.8	0.8	-1.7	1.7	2.0	1.4	1.3
(Sub-Saharan Africa ^b)	3.7	1.9	2.1	2.9	2.2	0.6	0.1	2.3	2.6	2.8	3.3
By Predominant Export											
Oil Exporters	9.2	1.4	2.4	-1.1	-1.2	-0.2	-1.2	0.8	-0.3	-0.5	-0.2
Non-Oil Exporters	5.5	6.1	4.9	4.8	3.2	2.2	2.2	5.2	4.4	3.7	3.8
Primary Products Exports	5.4	3.5	4.6	4.2	1.1	0.3	-0.4	3.6	3.5	4.3	3.5
Manufactures Exporters	5.7	9.2	4.3	4.6	4.8	5.0	7.4	8.2	6.4	5.0	5.0
Service and Remittances	4.6	5.9	5.7	5.7	2.5	3.2	2.6	3.3	4.0	2.6	1.8

^aProjected.

^bExcluding Nigeria and South Africa.

Source: For the United States through 1986, Department of Commerce, Survey of Current Business and the Economic Report of the President; projections for the United States in 1987 and data for all other countries, International Monetary Fund, World Economic Outlook, October 1986, Tables 1 and 5.

Figure 4-1. Real Growth of World Output:
Industrial Countries and Developing Countries, 1978-87

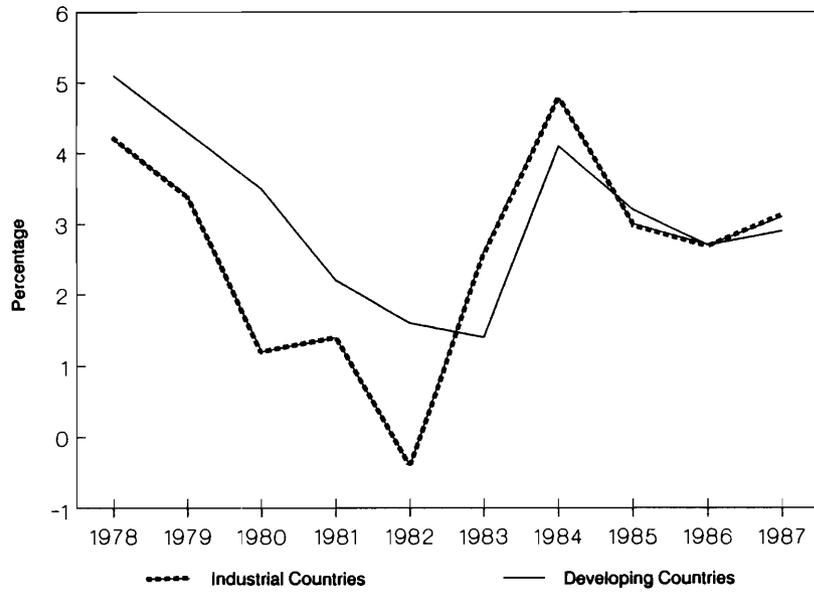
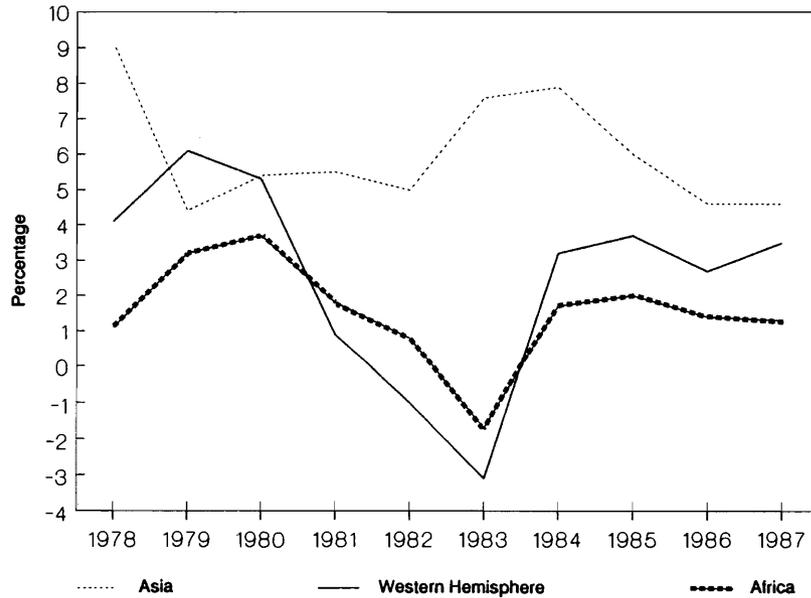


Figure 4-2. Real Growth in GDP of Developing Countries,
by Selected Regions, 1978-87

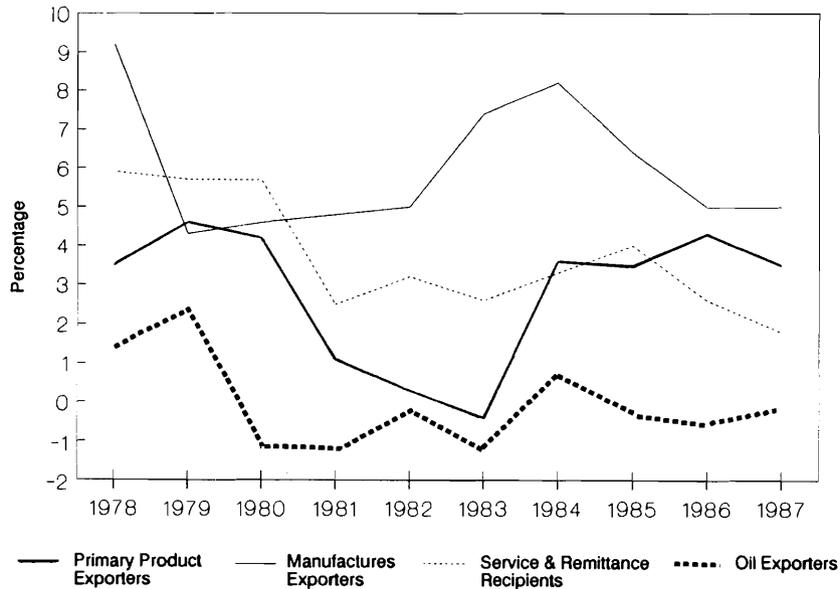


The region with the most serious development problems is Sub-Saharan Africa. The area has consistently lagged behind other geographic regions in terms of growth. Per capita income levels there are already among the lowest in the world, and most Sub-Saharan African countries have experienced sustained declines in per capita income for at least two decades. Many countries there have suffered for years from poor domestic economic policies and major external disruptions including drought, the collapse of prices for their exports, increased prices for imported oil, civil wars and armed incursions, influxes of refugees, and import barriers imposed by both industrial and other developing countries.

The Composition of Exports

Figure 4-3 highlights the differences in experience of developing countries, classified by the composition of their exports. The oil exporters experienced the worst growth rates in their real gross domestic product (GDP), as petroleum exports declined sharply in price during 1986. Non-oil primary product exporters had the next lowest rates. Exporters of manufactures, with more flexible, market-oriented economies, performed best.

Figure 4-3. Real Growth in GDP of Developing Countries Grouped by Predominant Export, 1978-87



4.1.2 Trade

Volume

Annual growth in the volume of world trade was 3.75 percent in both 1985 and 1986. It is projected by the Organization for Economic Cooperation and Development (OECD) to remain at approximately the same rate during 1987.

The volume of exports from developing countries in 1986 is projected to have grown by 5.8 percent. The increase is up from the 0.7-percent increase registered in 1985. The improvement is largely due to the sharp rise in oil exports by the Organization of Petroleum Exporting Countries (OPEC) to compensate for the lower prices they received. Non-oil exporting developing countries lagged behind. The volume of their exports is expected to have grown by 4.7 percent in 1986, up from a 3.4-percent increase in 1985.

Commodity Prices

The average dollar price of non-oil primary commodities is estimated to have declined by 1.5 percent during 1986. Overall, primary commodities are now selling more than 30 percent below their 1980 level. Part of the decline was offset by lower import prices. Import unit values for developing countries are expected to have declined by 9 percent in dollar terms from 1980 through 1986.

Terms of Trade

The IMF estimates that the terms of trade for developing countries declined by 16.3 percent in 1986, after a 2.2-percent fall in 1985 (World Economic Outlook, October 1986, p. 67). For the non-oil exporting countries the 1986 decline is estimated to have been 2.5 percent. Since 1977, the terms of trade for these countries has decreased by nearly 17 percent. For the oil-exporting countries, however, the sharp decline in oil prices resulted in a 44.1-percent decline in their terms of trade in 1986 alone.

4.1.3 Prospects

Economic prospects for developing countries during 1987 and beyond are moderately good. Stimulated by lower interest rates that are enhancing prospects by reducing debt-service burdens, the World Bank estimates that the aggregate real economic growth rate of all non-oil exporters will increase to nearly 4 percent. Except in Asia and Africa, all regional growth rates are projected to increase. Asia's rate should remain steady but will still exceed growth rates in the other regions.

4.1.4 Potential Problems and Uncertainty

Several factors influence the growth prospects for developing countries. The most important external influence is the rate of growth in industrial countries. Although continued growth is expected, a further slowdown in growth in industrial countries would adversely affect developing country growth rates. Another major external concern is protectionism in both the industrial and developing countries. In many countries, including the United States, pressures for protection from imports have been building. Access to international markets is vital for the developing countries if their growth is to continue, however.

4.2 U.S. TRADE POLICY AND DEVELOPING COUNTRIES

Over the last 25 years, the United States has been working toward formulating international economic and trade policies that contribute to the development efforts of developing countries and their integration into the international trading system. These policies, which are consistent with U.S. obligations under the General Agreement on Tariffs and Trade (GATT), are designed to encourage developing countries to pursue sound economic and trade policies based on the principles of market forces and liberalized trade. U.S. policy also supports the maintenance of an open trading system that provides free market access for goods and services produced by developing countries.

The Administration's trade program, announced on September 23, 1985, emphasizes the linkage between liberalized trade and the economic development of both developed and developing countries. The trade plan is a three-pronged approach designed to alleviate the macroeconomic causes of the U.S. trade deficit, strengthen the international trading system, and ensure fair trade for all countries. Measures to sustain noninflationary growth in the economies of major U.S. trading partners will contribute to the growth of world trade and will strengthen nondollar currencies. Reduction of trade and investment barriers represents part of a comprehensive effort to help establish the fundamental conditions for sustained growth in developing countries.

A major element of the Administration's trade program has been strengthening the rules governing international trade through a new round of trade negotiations. The Uruguay Round of Multilateral Trade Negotiations, launched in September 1986, represents an achievement for the international trading community and a commitment to strengthen the international trading system. The commitment of trade ministers to negotiate greater discipline over trade and trade-related investment practices underscores the importance attached to the new round of negotiations. The Uruguay Round participants will consider a full range of issues, including the critical issues of agriculture, services, intellectual property, investment, and dispute settlement. In recognition of the linkages between trade liberalization and efforts to resolve the debt problems facing developing countries, the United States and other OECD countries agreed to take into account the trade liberalization measures that countries are adopting under World Bank and IMF programs in the context of the Uruguay Round.

A key objective for strengthening the international trading system is the maintenance of open access to markets for fairly traded goods, particularly those from developing countries. The U.S. commitment to this policy is underscored by the importance of the U.S. market to developing countries. For the last 25 years, the United States has been a growing market for developing country exports. In 1985, the United States imported about 40 percent of developing country exports to industrial countries, compared with 23 percent for the European Economic Community and 24 percent for Japan. With respect to developing countries' manufactures exports, the United States imports a far higher share: 63 percent in 1985 compared with 23 percent for the European Community and 7 percent for Japan.

The U.S. trade deficit with all developing countries has grown from \$16.3 billion in 1982 to an estimated \$55.5 billion in 1986. Part of this growth in the trade deficit resulted from increasing U.S. imports from developing countries, which grew from \$103 billion in 1982 to an estimated \$126 billion in 1986. The decline in U.S. exports to developing countries initially contributed to the increase in the deficit, declining from \$81 billion in 1982 to \$70 billion in 1983 and remaining relatively stable since then.

4.2.1 The Debt Crisis and Trade Finance

The slow growth of the world economy and the serious debt problems of developing countries continue to have an adverse effect on developed country exports to developing countries. U.S. exports to developing countries are estimated to have declined by 2 percent from 1985 to 1986, reflecting continuing stagnation in markets for U.S. exports in developing countries, particularly in Latin America. In contrast, the United States remains a vital and growing export market for developing countries. Developing countries increased their exports to the United States at a 3-percent rate during 1986, continuing a trend since the debt crisis. Because of the growing market for developing country exports, the U.S. trade deficit with developing countries continued to widen, representing a growing transfer of resources to developing countries through the trade account.

Many high-debt developing countries experiencing severe liquidity problems have found it necessary to reschedule credits (including trade credits), ration scarce foreign exchange, and curtail imports. In this environment, many official and private creditors have taken steps to limit their exposure in high-debt developing countries by reducing the availability of credit for trade and investment. The U.S. Export-Import Bank, however, remained on cover in a number of high-debt developing countries and assisted in financing necessary imports, especially for those countries undertaking appropriate policies under World Bank and IMF programs. This financing represents a signal to the private banking community and foreign export credit agencies that the United States is willing to facilitate financial flows to the high-debt developing countries undertaking appropriate policies for sustained growth.

Although the United States and its major trading partners have made significant progress in eliminating the use of export credit subsidies in world trade, another form of subsidy, tied aid credits, has continued to grow. (Tied aid credits are financing arrangements linked to the purchase of goods or services from the donor country or a specific set of countries, usually developing countries. All or part of the credit may be at a less than market rate of interest.) A major emphasis of U.S. trade policy in 1986 was to reduce the predatory use of tied aid credits. To this end, the Administration sought and received appropriations to implement a tied aid credit facility to be used in conjunction with standard export credits to confront industrial countries using mixed credits for commercial purposes. The fund has been used to provide the necessary leverage on a few governments, to get them to join the majority of U.S. trading partners in negotiating an end to tied aid credits. Eliminating the use of these credits for commercial purposes will make available additional aid funds for appropriate development assistance purposes.

4.2.2 Trade Actions of Interest to Developing Countries

Protectionist pressures continued to be strong in the United States in 1986. Protectionist legislation was an issue of considerable congressional debate, but the Administration successfully blocked it. In addition, the Administration vetoed the congressionally approved Textile Bill.

The Administration in 1986 continued its efforts to address unfair trade practices abroad. Section 301 of the Trade Act of 1974 authorizes the President to take appropriate measures to eliminate the policy or practice of a foreign government that violates an international trade agreement or unreasonably restricts U.S. trade. President Reagan determined that Brazil's laws were restricting trade in information products but delayed until July 1, 1987, further U.S. remedial actions. With respect to a section 301 investigation, Taiwan agreed to liberalize market access on wine, beer, and tobacco on December 6, 1986. In response to an Administration-initiated 301 investigation, Korea agreed to liberalize restrictions on intellectual property rights and insurance underwriting by foreign firms. In an effort to resolve long-standing market access issues related to cigarettes and motion pictures, Korea enacted market-opening measures in 1986.

4.2.3 The Generalized System of Preferences

On October 30, 1984, President Reagan signed the Trade and Tariff Act of 1984, which included statutory authority to extend the U.S. Generalized System of Preferences (GSP) through mid-1993. The program of temporary, duty-free tariff preferences for over 3,000 tariff classifications of goods imported from 140 beneficiary countries and territories covers a broad range of manufactured, semimanufactured, and agricultural products. Textiles, apparel, footwear, and leather-related products as well as import-sensitive steel, glass, and electronic articles are excluded by statute from GSP eligibility. The program accounted for almost \$13.3 billion worth of imports from developing countries in 1985.

The Administration obtained some important changes in the 1984 renewal of GSP. The revised program provides the potential for further liberalization and for graduation from duty-free preferences under the President's discretionary authority. The new authority draws additional attention to U.S. efforts to ensure that the benefits of the GSP are accruing to countries most in need of preferential treatment in order to compete in the U.S. market. In making GSP eligibility determinations, the President is directed to take into account certain practices of developing countries. The factors to be considered include the extent to which the beneficiary, at a level commensurate with its individual level of development, is (1) providing access to its markets for U.S. goods and services, (2) reducing or eliminating trade-distorting investment and export practices, and (3) providing adequate protection for intellectual property rights and internationally recognized workers' rights. Finally, the new authority provides unlimited access for GSP-eligible articles from countries designated by the President as least developed.

On January 2, 1987, the Administration announced the President's decisions on the General Review of the GSP program. The President's decisions will result in a redirection of the program away from the advanced developing countries while preserving benefits for beneficiaries more in need of the tariff preferences. The review also served to encourage beneficiary countries to improve practices relating to market access, investment, and the protection of intellectual property rights, as well as to underscore the importance the Administration places on internationally recognized workers' rights. Some of the substantive actions resulting from the review include the following:

- Reduction of GSP benefits on 290 products accounting for almost \$3.1 billion in GSP-eligible trade, with 97 percent of these cuts sustained by advanced beneficiaries-- Taiwan, Korea, Hong Kong, Mexico, Brazil, and Singapore
- Potential benefit expansion for 95 products from 10 countries, including less advanced countries such as the Philippines, Colombia, and Malaysia
- Termination of GSP eligibility for Romania and Nicaragua and the suspension of eligibility for Paraguay on the basis of a review conducted in the context of the GSP program's statutory workers' rights criteria

4.2.4 Caribbean Basin Economic Recovery Act

President Reagan's Caribbean Basin Initiative (CBI) is an unprecedented program of trade, economic assistance, and tax measures to generate economic growth in the region through increased private sector investment and trade. The program is a multi-faceted development program of economic assistance and enlarged access to the U.S. market.

In order to promote self-sustaining revitalization of the economies of the 22 CBI beneficiaries, the measures are designed to catalyze expansion of local productive capacity in response to

the opening of new markets for exports and to assist the development of key sectors of their economies, including tourism.

The major elements of the CBI program include (1) duty-free treatment for a broad range of imports into the United States, (2) increased economic assistance directed at private sector development, (3) special measures to support the economic development of Puerto Rico and the Virgin Islands, (4) special access to the U.S. market for CBI beneficiary exports of apparel made from fabric cut and formed in the United States, (5) permission for CBI beneficiary countries to compete in the U.S. Government procurement market, and (6) the allowance of U.S. tax deductions for expenses of business conventions held in qualifying Caribbean Basin countries. Finally, the new U.S. tax law allows funds generated in Puerto Rico (through section 936 of the Internal Revenue Service code) to be reinvested in CBI countries that have tax information exchange agreements in effect.

4.3 EXTERNAL INDEBTEDNESS

4.3.1 Debt Problems Since the 1960s

Debt problems became pronounced in the 1960s primarily as Latin American countries faced with increasingly burdensome repayments of suppliers' credits sought relief from creditor governments. Many of these creditor governments had vigorously promoted exports through increased direct and officially guaranteed export credits. Commercial bank lending to the developing countries in this period was modest, so commercial banks were generally not involved in any debt problems. India and Pakistan received debt relief as a form of development assistance in this period, and in the early 1970s, Indonesia and Ghana had their debt to official creditors restructured when they faced insolvency.

Throughout the mid- and late 1970s, external indebtedness of developing countries increased at an exceptionally rapid rate. Rather than implement needed domestic economic reforms, many indebted countries increasingly financed unsustainable levels of domestic consumption and public expenditure, in addition to inefficient investments, with medium-term variable interest rate bank borrowing at modest spreads over the London interbank offer rate (LIBOR). During this period, external debt increased at a compound annual rate of 22 percent, outpacing the 18-percent growth in export earnings of the non-oil exporting developing countries. There was a consequent rise in overall debt service burdens, but critical debt servicing difficulties during those years remained confined to a few smaller countries that had persistent balance of payments problems despite repeated corrective efforts.

Global economic developments in the early 1980s, however, created serious financial strains that some countries with access to international capital markets and banking credits sought to ride out by increasing their foreign debt. Sharp increases in oil prices and a collapse in the price boom for other raw materials and commodities, coupled with recession in the industrial countries and a sharp rise in interest rates, created additional

strains on developing countries' payments positions and unprecedented increases in debt servicing burdens from 1980 to 1982.

4.3.2 The Debt Strategy

In response to this increasingly serious global liquidity problem, the United States developed a five-part strategy in early 1983 to deal with these debt servicing problems. This strategy subsequently gained wide international support and was endorsed at the Williamsburg Summit in 1983 and reaffirmed in the declarations of subsequent summits.

A major aim of the strategy was to address the loss of creditworthiness of debtor nations on a case-by-case basis. The strategy was based on the implementation of a set of conditions that, if fulfilled, would improve the creditworthiness of the heavily indebted countries. Success of the strategy would be defined by an improved capacity in those countries for meeting their interest and debt repayment commitments on time while maintaining imports at levels sufficient to support a gradual return to sound economic growth.

The debt strategy implemented in 1983 consisted of five interrelated elements: (1) economic adjustments by the debtor countries; (2) economic recovery, sustained growth, and open markets in the industrialized countries; (3) adequate resources for the IMF; (4) continued commercial bank lending for countries making determined adjustment efforts; and (5) readiness to provide bridge financing, as necessary, from central banks and governments on a case-by-case basis. In addition, the Declaration of the London Summit in 1984 encouraged banks to reschedule principal falling due over several years for countries with good adjustment records and favorable economic prospects and pledged that governments would consider doing the same.

The first and most basic point of the strategy was that countries had to adjust their own economies to the realities of their balance of payments. The IMF would play a central role in providing advice and credit in support of sound adjustment programs and, through its participation, would help restore the confidence of foreign creditors. A major target of the strategy was the restoration of noninflationary growth in the developed world and the maintenance of open markets to provide debtor nations opportunities to increase their export earnings. Finally, the strategy required continued lending by the commercial banks so that developing countries could obtain financing for normal current account deficits.

4.3.3 Developments Since 1982

Heavily indebted developing countries facing a liquidity squeeze as a consequence of the 1982 debt crisis responded in varying degrees by restraining internal demand, devaluing their currencies, and negotiating with creditors to restructure their maturing debt and to secure new credits. Because of severe financing constraints, their balance of payments deficits on current account fell sharply. Reductions in nominal interest rates in the

United States and elsewhere also contributed to improvements in the debtor countries' current account positions.

Restructuring of outstanding debt undertaken by major debtors and their creditors reduced the uncertainty about the ability of borrowers to meet their payment commitments on time. The refinancing at longer term of short liabilities eased liquidity pressures on market borrowers, particularly in the Western Hemisphere. In all, commercial banks rescheduled over \$200 billion from 1982 through 1985, while governments rescheduled \$33 billion of direct or guaranteed credits.

In several cases, commercial banks agreed to reschedule not only payments already in arrears or falling due within a year, but also payments falling due several years in the future. The purpose of this procedure was to lengthen the repayment period and ease the amount of repayment in the early years to provide time for adjustment policies to work. By agreeing to these multiyear reschedulings, creditors indicated increased confidence in the performance of the debtor.

4.3.4 Strengthening the Debt Strategy: Program for Sustained Growth

The debt strategy as originally devised successfully dealt with the serious and widespread liquidity problem that prevailed during 1982-83. Beginning in 1984, real growth in developing countries improved as they undertook adjustment efforts and as the industrial countries recovered. Nevertheless, recovery was slow and very uneven among countries.

The debtor countries were able to reduce their balance of payments deficits dramatically but were less successful in addressing internal disequilibria and structural problems affecting long-term growth performance. High public sector deficits, excessive inflation rates, and misaligned prices continued, along with inappropriate financial policies that contributed to capital flight. Investment spending in the indebted countries also declined with the reduced access to new foreign credits. In addition, the debt servicing burdens of the developing countries remained large, despite the relief provided by the debt restructuring agreements and rapid growth of exports. Bank lending to the major debtors was also declining, with very little net new lending anticipated in 1985. The sense of increasing reluctance among banks to participate in new money and debt rescheduling packages introduced serious uncertainties for borrowers, in some cases making it more difficult for them to pursue economic reforms.

In an effort to address these problems and to strengthen the debt strategy, Treasury Secretary Baker proposed a "Program for Sustained Growth" at the joint annual meetings of the IMF and World Bank in Seoul, Korea, in early October 1985. Building on the existing case-by-case approach, the program placed greater emphasis on both market-oriented economic policies to foster growth and adequate external financing to support it. This would be achieved through three essential and mutually reinforcing elements:

- First, and foremost, the adoption by principal debtor countries of comprehensive macroeconomic and structural policies to promote growth and balance of payments adjustment and to reduce inflation
- Second, a continued central role for the IMF, in conjunction with increased and more effective structural and sector adjustment lending by the multilateral development banks
- Third, increased lending by private banks

The initiative was designed to strengthen the debt strategy by focusing on the need for growth. In addition, it recognizes that without economic reform in the debtor nations, no amount of money--whether derived from external borrowing, financial aid, or inflationary domestic pump priming--will produce sustainable growth. Merely increasing the total debt burden, without implementing credible policy measures to ensure that any new financing would be used efficiently and productively, would be imprudent. The strengthened debt strategy also emphasizes the importance of enhanced domestic savings and equity investment--whether domestic, foreign direct investment, or the reflow of flight capital--to reduce the need for foreign borrowing. The development of medium-term economic programs must ultimately be the debtor's responsibility, but they have to be credible in order to gain the support of the IMF, the World Bank, and commercial banks.

4.3.5 Progress Under the Strengthened Debt Strategy

Considerable progress has been made in implementing the strengthened debt strategy. An excellent example of this strategy at work was the Mexican financial package, approved in September 1986, which included an innovative and comprehensive growth-oriented program, supported by the IMF and the World Bank, and an agreement on new lending by the commercial banks.

To establish the vital prerequisites for growth and stability, many of the major debtors have implemented monetary and fiscal reform programs designed to eliminate inflation and create economic incentives to retain domestic savings and repatriate flight capital. Major reform programs in Argentina, Brazil, and Bolivia, for example, have substantially reduced inflation rates. In addition, Brazil and Mexico have moved to transfer government-owned industries to private ownership and management, thus reducing the heavy burden of inefficient, often highly subsidized public enterprises. Argentina, as have other major debtors, has announced similar intentions to privatize large state enterprises.

The major debtors are also placing greater reliance on markets to allocate resources. Colombia, for example, has reduced Government interference in its import, export, and foreign exchange system and implemented more market-sensitive agricultural policies. Mexico has moved to reduce its trade barriers, while Ecuador is encouraging more foreign investment. Argentina has taken steps to implement tax and financial sector reforms to encourage sustainable growth.

In support of these debtors' efforts, the IMF and World Bank have provided economic advice, assistance in the formulation of growth-oriented programs, and enhanced lending. Between October 1985 and November 1986, the IMF negotiated new standby programs or letters of intent with seven of the major debtors, providing nearly \$3.1 billion in new IMF loans. The World Bank approved new policy-based loans of more than \$3.7 billion during the same period for 10 of the major debtors. As of November 1986, almost \$5 billion in additional policy-based loans were also under negotiation. Aggregate World Bank loan commitments to the major debtors increased by 40 percent in its fiscal year 1986, ending in June.

The commercial banks are also moving to fulfill their agreed role under the strengthened debt strategy through new concerted money packages, to be concluded once negotiations with the IMF and World Bank are completed. The first major new money package has been prepared for Mexico, following the conclusion of an IMF standby arrangement in September 1986. The new commercial bank package will provide \$6 billion in new loans, plus \$1.7 billion in growth and investment contingency financing.

In the fall of 1986, commercial banks also completed discussions on a \$320 million lending package for Nigeria. Discussions on additional new lending packages with Argentina and Chile were either underway or awaiting completion of IMF and World Bank negotiations. In addition, negotiations on a \$220-million oil financing facility for Ecuador were completed, and new loans linked to World Bank cofinancing were provided to Uruguay. Finally, between October 1985 and November 1986 commercial banks rescheduled over \$65 billion in debt, including agreements with Brazil, Ivory Coast, Mexico, Nigeria, and Uruguay.

4.3.6 International Monetary Fund and World Bank Lending for Economic Adjustment

Secretary Baker also proposed at the 1985 IMF/World Bank meeting the use of IMF Trust Fund reflows to support growth-oriented policies in low-income countries with protracted balance of payments problems, most of which are in Africa. Subsequently, the program was endorsed by the IMF and World Bank boards. The IMF created a new facility, the Structural Adjustment Facility, to implement the proposal; the World Bank's contribution will come primarily from International Development Association resources.

The key element of the new arrangement is the use of medium-term policy frameworks. These are developed jointly by the IMF, the World Bank, and the borrowing countries through joint World Bank/IMF missions. The policy frameworks are incorporated in papers that set forth problem areas and policy priorities, time-tables for addressing problems, an assessment of external financing needs, and indicative levels of financing from the World Bank, the Structural Adjustment Facility, and other sources.

Once a policy framework is agreed on, the World Bank and the IMF will negotiate independent, but related, detailed lending programs consistent with the overall framework. Individual country policy framework papers are also being used by aid coordination groups to support more effective and productive use of

bilateral assistance and to catalyze additional bilateral resources. Thus far, policy frameworks have been negotiated for 10 of the 58 countries eligible for the program.

4.4 PRIVATE DIRECT INVESTMENT

4.4.1 U.S. Government Investment Policy

In the 1960s, there was great concern in the United States and abroad about the persistent deficit in the U.S. balance of payments. In January 1968, the United States instituted mandatory controls on U.S. direct overseas investment as a "temporary" measure to improve the U.S. balance of payments position. These capital controls were lifted in 1974. That year the United States articulated its policy and objectives on international investment: to achieve an international investment environment in which government policies would play a neutral role.

The Carter Administration in 1977 furthered this policy of "neutrality" by stating that U.S. Government policy toward international investment was to neither promote nor discourage inward or outward investment flows or activities. The policy statement also indicated U.S. Government concern for investment flows to developing countries and noted it was not the intent of U.S. policy to preclude appropriate assistance to those developing countries wishing to attract foreign direct investment.

In September 1983, President Reagan issued a major statement on international investment that has formed the basis for an active U.S. Government policy aimed at reducing foreign government actions that impede or distort international investment flows. The Administration believes that an open international investment system responding to market forces provides the best and most efficient mechanism to promote global economic development. Foreign direct investment can act as a catalyst for growth, introduce new technology and management skills, expand employment, and improve productivity. It is also an important source of capital and can stimulate international trade.

The United States opposes continued and increasing government intervention that impedes or distorts investment flows or attempts to artificially shift the benefits of these flows. These measures include trade-related or other performance requirements, fiscal or financial incentives, and discriminatory treatment of foreign investment. The Administration has taken steps to counter these distortive investment practices, through such initiatives as the inclusion of investment issues in the Uruguay Round of Multilateral Trade Negotiations and use of the Trade and Tariff Act of 1984 (discussed below in Sections 4.4.4 and 4.4.5).

The U.S. Government is working to encourage developing countries to strengthen their investment climates in order to increase capital flows to them. The U.S. Government strongly believes that domestic economic policy reform will be a key factor for developing countries wishing to attract greater foreign direct investment. Open and stable investment policies are a critical determinant for foreign investors. Policies aimed at regulating

investment through the imposition of various entry barriers or restrictions on established foreign investments only act to discourage foreign investment.

4.4.2 Private Direct Investment Flows to Developing Countries

In the 1960s and 1970s, foreign direct investment flows to developing countries grew steadily. According to the 1985 IMF World Economic Outlook, net direct investment flows from industrialized to developing countries increased from an average \$2 billion a year during the early 1960s to an average of about \$6 billion in the following decade. The 1986 IMF World Economic Outlook indicates that net direct investment flows to non-oil exporting developing countries peaked at \$14 billion in 1981 and have subsequently declined. For 1986, net direct investment flows to developing countries are estimated at \$11 billion.

The United States has been the largest single source of foreign direct investment flows to developing countries, accounting for approximately one-half of the total flows from the industrialized to the developing countries. The United Kingdom and France have been the two other traditional sources. However, the IMF has found that the relative importance of these three major countries has declined. In recent years, Germany and Japan have significantly boosted their foreign direct investment flows to developing countries.

Foreign direct investment flows from industrialized to developing countries have been concentrated in a small group of countries with substantial domestic markets, abundant natural resources, or possibilities for export-oriented production: Brazil, Mexico, Singapore, Hong Kong, Malaysia, and the Philippines. In terms of regional distribution, U.S. investment has focused largely on Latin America. The majority of the United Kingdom's investment is in the Commonwealth nations. France has invested primarily in Africa, while Japan's investments are mostly in Asia. Recently, foreign direct investment flows have been moving away from the highly indebted Latin American countries toward the South and East Asian countries. Since the start of the debt crisis in 1981, Commerce Department data show that U.S. investment grew steadily in Southeast Asia and basically stagnated in Latin America.

4.4.3 Developing Country Policies Toward Private Direct Investment

During the 1960s and 1970s, many developing countries imposed restrictions on foreign direct investment, limiting foreign participation in certain industrial sectors and increasing local ownership requirements. These developing countries have been concerned with foreign control over specific economic sectors, natural resources, and major industrial enterprises. Some developing countries have been wary of foreign investment because they fear foreign investors will engage in restrictive business practices, influence political decisions, and disregard critical social problems.

Since the 1981 debt situation, there has been a decline in foreign direct investment flows, commercial bank lending, and official development assistance to developing countries. This has prompted a growing number of developing countries to become more receptive to foreign direct investment. Realizing that the private sector is an efficient allocator of limited resources in the production of goods and services, these developing countries are beginning to liberalize their investment policies to attract greater investment flows. Some countries, such as Egypt, Jamaica, and Turkey, have moved away from policies that involve strict control over foreign direct investment toward more flexible arrangements. Other countries, like South Korea, Morocco, and Pakistan, have proceeded more cautiously, implementing gradual policy changes.

Nevertheless, many developing countries still believe it is necessary to regulate the flow of investment to their markets by imposing entry barriers or restrictions on established foreign investments. These regulations include minimum export levels, local equity requirements, local input or labor content requirements, and maximum import levels. Such regulations tend to discourage foreign firms from pursuing investment opportunities in developing countries because of the increased cost and risk. In an effort to counteract this, some of developing countries offer incentives, such as direct subsidies or tax credits, or protected markets to foreign investors who agree to meet certain performance requirements. Investment incentives are costly and drain government revenues that could be used more productively elsewhere. The use of both incentives and performance requirements distorts international trade and investment flows.

4.4.4 U.S. Government Efforts To Facilitate Investment Flows

The U.S. Government has provided considerable assistance to facilitate investment flows. Included in this assistance are U.S. Government bilateral programs such as those of the Overseas Private Investment Corporation (see Section 6.3) and U.S. support for multilateral private sector-oriented institutions such as the International Finance Corporation (see Section 7.4). A.I.D. programs, such as those of the Bureau for Private Enterprise and the Trade and Development Program (see Section 6.5), also facilitate private investment flows.

Bilateral Investment Treaty Program

The Bilateral Investment Treaty Program was initiated in December 1981. It is an important part of the Administration's program to protect U.S. direct investment in developing countries. The United States has now signed treaties with 10 countries-- Egypt, Haiti, Morocco, Panama, Senegal, Zaire, Bangladesh, Grenada, Cameroon, and Turkey. The treaties were submitted to the Senate in 1986 for advice and consent to ratification. Senate action on these treaties is expected in 1987. Discussions are in various stages with approximately a dozen other countries. The following are key elements of the U.S. model bilateral investment treaty:

- The better of national or most favored nation treatment for U.S. investment abroad
- International law standards for expropriation and compensation
- Free and timely transfers of funds associated with investments
- Procedures, including international arbitration, for the settlement of disputes

Trade-Related Performance Requirements

In July 1986, the Administration issued a policy statement on trade-related performance requirements. This statement specifically elaborates on the Administration's 1983 investment policy statement reserving to the United States the right to take action against countries that use performance requirements and similar policies.

Examples of trade-related performance requirements are local content requirements and export performance requirements. Local content requirements, which specify that at least some minimum proportion of the total value of the investor's finished product originate from the host country, artificially displace imports, much as import quotas do. Export performance requirements, which specify that at least some minimum share of the total value of the output be exported, can artificially increase the supply of products in world markets, often at the expense of the investing country's production and exports. The effects of these performance requirements are direct and identifiable: these requirements distort trade and investment flows. These harmful effects result whether the requirements are placed on foreign investors from the United States or third countries.

The U.S. Government's objectives are to prevent the further spread of these requirements and to seek the removal of those now in effect. In the Uruguay Round of Multilateral Trade Negotiations, the United States is seeking to obtain multilateral discipline over investment measures that distort trade.

In addition to this multilateral approach, the United States is also proceeding bilaterally. One element of the U.S. bilateral strategy is to discourage the further proliferation of trade-related performance requirements. The United States, through its embassies and contacts with private business, will monitor carefully the policies of other countries to determine whether new or expanded trade-related performance requirements are proposed.

A second element of the U.S. bilateral strategy is directed at reducing or eliminating existing trade-related performance requirements. For example, the United States discussed trade-related performance requirements with countries having such requirements during the U.S. Generalized System of Preferences Review.

The Overseas Private Investment Corporation (OPIC) has recently taken steps to support the U.S. Government's bilateral approach to trade-related performance requirements. OPIC is tightening its policy guidelines with respect to performance requirements imposed on OPIC-assisted U.S. investment.

To deal specifically with export performance requirements, the United States has available, in addition to other trade policy instruments, section 307 of the Trade and Tariff Act of 1984. Under that provision, when the Office of the U.S. Trade Representative, with interagency advice, concludes that a country's export performance requirements adversely affect U.S. economic interests, it may undertake consultations or negotiations aimed at reducing or eliminating these requirements. In addition, the Office of the U.S. Trade Representative may impose import restrictions on products and services of a country with export performance requirements that adversely affect the United States. Restrictions would not be placed on goods or services of U.S. foreign investment made prior to the 1984 Act.

The U.S. Government intends to use section 307 authority and other tools as appropriate in pursuing its objectives with respect to trade-related performance requirements.

4.4.5 Investment and the Uruguay Round of Multilateral Trade Negotiations

At the September 1986 GATT ministerial-level meeting in Punta del Este, the trade ministers recognized the importance of investment to international trade by including it in the agenda of the Uruguay Round of Multilateral Trade Negotiations. The ministerial declaration states that "following an examination of the operation of the GATT articles related to the trade restrictive and distorting effects of investment measures, negotiations should elaborate, as appropriate, further provisions that may be necessary to avoid such adverse effects on trade." This language reflects a consensus that trade and investment are closely linked and recognizes the importance of reviewing current GATT rules and establishing additional discipline as appropriate.

4.4.6 Multilateral Investment Guarantee Agency

In the late 1950s, the idea emerged to create an international agency to insure foreign investors against noncommercial risks. At the request of the Development Assistance Committee of the OECD, the World Bank produced a series of studies and draft conventions in the late 1960s and early 1970s. However, the proposal to establish a multilateral agency did not win enough supporters.

In light of the decline of foreign direct investment flows, commercial bank lending, and official development assistance to developing countries, the World Bank proposed in 1984 the establishment of a Multilateral Investment Guarantee Agency (MIGA) to improve the investment environment in developing countries. The MIGA would offer guarantees against political risks faced by foreign investors, carry out a wide range of promotional activities, and encourage sound investment policies in member countries.

In October 1985, the Board of Governors of the World Bank approved the convention to establish the MIGA and opened the convention for membership. The U.S. Government supports a sound MIGA and actively participated in the negotiations to establish satisfactory operating procedures. The MIGA cannot operate until a minimum one-third of its \$1 billion in capital is contributed by at least 5 developed and 15 developing countries. To date only four developing countries have ratified the convention.

Under the MIGA, risk coverage would encompass noncommercial events that affect an investor's rights or reduce benefits from the investment. The three generally accepted broad categories of noncommercial risks covered would be (1) currency transfer (i.e., the costs resulting from host government restrictions and delays in converting and transferring local currency); (2) expropriation (i.e., the loss resulting from host government action depriving investors of control over or substantial benefits from their investments); and (3) loss resulting from war or civil disturbance. The MIGA would add to these traditional risks breach of legal commitments between the host government and the foreign investor.

The MIGA will work to improve the investment climate in developing country members by seeking to remove impediments to the flow of investment, guided by the generally recognized principles reflected in investment agreements among member countries. Another important feature of the MIGA would be its investment promotion activities. These are envisaged to include providing information on investment opportunities, preparing studies, advising member governments on investment policies and regulations, and cooperating with other international organizations engaged in related fields.

4.4.7 Organization for Economic Cooperation and Development

In May 1984, the OECD ministers agreed to strengthen investment relations with developing countries. The ministers directed the Committee on International Investment and Multinational Enterprises to organize a round table of foreign investment policy experts from selected OECD and developing countries. The round table was held May 12-15, 1986 at the German Foundation for International Development in Berlin, West Germany. The objective of the meeting was to examine ways to improve the climate for increasing the flow of foreign direct investment to developing countries and to encourage its contribution to economic development.

The U.S. Government views the round table as the beginning of an ongoing dialogue between OECD and developing countries that should aim to achieve the following:

- Improve the international climate for market-determined investment flows
- Encourage greater developing country awareness of the economic benefits of foreign direct investment

- Identify problems or obstacles to foreign direct investment, with the future goal of reducing or eliminating them
- Explore market-oriented ways to increase investment flows to developing countries

The U.S. Government hopes that an OECD investment dialogue with the developing countries can eventually lay the foundation for improvements in the investment climates of the developing countries, including the right of entry for new investors, national treatment after entry, and reduced use of performance requirements and incentives.

4.4.8 United Nations Code of Conduct Relating to Transnational Corporations

The United Nations has under consideration a global code of conduct relating to transnational corporations, covering a wider range of issues than any existing or proposed instruments. Work on a draft code was started in 1977 in the Commission on Transnational Corporations, a subsidiary of the Economic and Social Council, but has not yet been completed. The United States has actively participated in negotiations to ensure that the code is voluntary; does not discriminate between foreign-owned and domestic firms; provides equitable treatment for multinational corporations under international law; and applies to all enterprises regardless of whether their ownership is public, private, or mixed. In the U.S. view, guidelines that 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.

CHAPTER 5

DEVELOPMENT PROGRESS AND PROBLEMS OVER TWENTY-FIVE YEARS

This chapter discusses A.I.D.'s traditional concern for individual income growth, as well as for the development of the human capital and institutions that constitute the social infrastructure necessary to make such growth sustainable and equitable. Reflecting their mutual interdependence, activities directed toward income growth and human and institutional development have been part of A.I.D.'s program to varying degrees since its inception in 1961.

During the 1960s, many A.I.D. programs were designed to provide directly productive investment and the supporting physical infrastructure. Success with this approach was noted primarily in countries that had already made appreciable progress in developing their social infrastructure. The distribution of the gains from growth varied depending on basic policies. Thus, for example, gains were more widely spread in Korea and Taiwan than in Brazil and the Philippines. The stress in A.I.D. programs shifted in 1973 with Congress's New Directions mandate, which called for greater A.I.D. attention to basic human needs. Congress did not ignore the economic growth objective at that time, but sought to change the balance of concerns; the term "growth with equity" was often used to characterize the A.I.D. approach after 1973.

5.1 GROWTH WITH EQUITY

5.1.1 Employment and Income

Agriculture is the sector that provides employment opportunities to the majority of poor people in developing countries. Therefore, A.I.D. programs have consistently emphasized agricultural development as a key means of promoting growth with equity.

In the 1960s, A.I.D. supported development and dissemination of "green revolution" technology in Asia and the enhancement of access to agricultural assets in Latin America. At the same time, A.I.D. helped to expand private sector industrial capacity through major infrastructure development programs. The two efforts tended to be mutually reinforcing as the industrial sectors absorbed labor from the agricultural sectors.

A.I.D. continues its commitment to broadly based economic growth. There has been a recognition, however, that direct programs to assist the poor to increase their income-earning capabilities are only part of the solution. The policy framework and the institutional arrangements for broadly based economic growth must also be sound. It is to these latter two arenas that A.I.D. has more recently turned its attention, while continuing its commitment to improving the human resource base.

A.I.D. programs address unemployment, underemployment, and increasing incomes for low-income populations. But A.I.D. recognizes that employment opportunities are limited by prevailing

economic policies that restrain private investment and job creation. Employment-inhibiting policies include barriers to foreign investment and economic distortions that encourage capital-intensive technologies. In addition to addressing equity concerns at the macro-level, A.I.D. continues to work at the micro-level to address directly the challenge of promoting equitable growth. This approach is exemplified by programs aimed at improving agricultural productivity and increasing the sustainability of social services.

5.1.2 Policy Objectives Affecting Employment and Income

Food and Agriculture

A.I.D.'s agriculture, rural development, and nutrition program recognizes that families as well as nations obtain food by producing it or by purchasing it in the marketplace--domestic or international. Accordingly, A.I.D. supports activities designed to achieve the following:

- Increase farm and nonfarm employment and incomes to enable low-income households to purchase available food
- Promote private agricultural marketing and distribution systems for imported food and for food produced domestically
- Encourage market-oriented, efficient, low-cost food production on small family farms on a sustainable basis
- Provide targeted food assistance to people currently unable to exercise market demand, with particular attention to children and women in low-income families
- Incorporate sound nutritional and food consumption principles into the design and implementation of agricultural and rural development activities

In the context of the income-oriented strategy summarized above, A.I.D. supports agricultural systems that are productive, sustainable, and environmentally sound. This policy recognizes that pressure on the world's fragile land resources is increasing relentlessly. Programs and farming systems that help to conserve the natural resource base, protect the environment, and preserve genetic diversity will help to maintain the long-run capacity of nations and small farms to produce food.

Private Enterprise Development and Privatization

Expanding the extent of competitive markets and the activities of private enterprise is an important component of the Agency's strategy to accelerate employment growth and improve income distribution. This strategy is being pursued by several measures including the following:

- Contributing to efforts to improve the business and investment climate in developing countries
- Reducing risks for foreign investors
- Engaging in policy dialogue to reduce economic, legal, and regulatory constraints on foreign and local investment
- Increasing the reliance on private services in place of government-supplied services
- Providing technology, training, infrastructure, and research to foster private enterprise development

A.I.D. is also attempting to encourage the conversion of government-owned enterprises to private ownership--referred to as privatization. Privatization is based on the understanding that the entrepreneur, the private sector, and the market mechanism are crucial elements in the economic growth and development process.

5.2 SOCIAL INFRASTRUCTURE: THE DEVELOPMENT OF HUMAN RESOURCES AND OF INSTITUTIONS

Infrastructure is often understood to mean physical capital such as roads, buildings, and ports. Economic development, however, involves a much broader set of factors than is encompassed in physical infrastructure. It also involves human resources and institutions that constitute the social infrastructure of a developing economy. This section discusses A.I.D. activities in this essential area.

5.2.1 Education and Training

Progress Toward Meeting Education and Training Needs

Most countries in which A.I.D. concentrated its education programs in the 1960s have made substantial progress in economic development as well as in education and no longer require concessional assistance. Evaluations of major A.I.D. education assistance programs, such as those implemented in Brazil, Colombia, Jordan, and Korea, suggest significant and positive long-term impacts. Countries have been helped to establish education and training systems of adequate size and quality to raise general education levels and to meet labor market requirements for workers with advanced and specialized training.

Among the general lessons drawn from previous experience is that A.I.D. has contributed most effectively by (1) supporting systemic reform, (2) staying involved over an extended period, and (3) emphasizing the strengthening of key institutional capacities. Assistance focused more narrowly, for shorter periods, or with less attention to establishing ongoing capabilities generally has been less effective and enduring. Capabilities for research and

analysis, administration, teacher training, and instructional materials production are particularly important.

A second general lesson is that training for key managers, technicians, and analysts is central to institutionalizing competence and ensuring lasting impact. External and local training is an important part of A.I.D.'s strategies for strengthening institutions in all sectors, including education and training institutions.

Policy Objectives for Education and Training

A.I.D. guidance is provided in basic education and technical training, participant training, and development communications. A.I.D. education and human resources objectives are to improve the following:

- Basic schooling opportunities for children between the ages of 6 and 14, with particular attention to improving access for girls and children in poor and rural areas and to allocating and managing education resources more efficiently.
- Skills training for adolescents and adults, particularly training for self-employment and employment in small- and medium-size enterprises.
- Scientific, technical, administrative, and managerial training as needed in support of A.I.D. programs in health, agriculture, population, and other sectors. Participant training in the United States is encouraged as an effective means of strengthening private as well as public sector institutions.

The education and human resources offices (regional and central) also provide technical support for education and training in other sectors. In FY 1986, funding for the A.I.D. education and human resources program was \$173.5 million in Development Assistance funds, \$115.8 million in Economic Support Fund programs, and about \$4 million under the Sahel program. Project-related training in other sectors was at least \$100 million, with agriculture education and training the largest component.

The Need for Education and Training

Economic and social development requires sustained attention to human resources development. Countries that have given priority to strengthening such capacities and nurturing such environments have been among the most successful in achieving sustained economic and social development.

In the wage economy, general education increases people's options for employment and specialized skills training. Employers benefit from improved efficiency and productivity and a wider range of investment and technology choices. Society benefits from economic growth, increased employment, and better distribution of opportunity.

For the self-employed, basic education and skills training enable individuals to use resources more productively and to respond more quickly to opportunities. Information is obtained more easily, new technologies and marketing practices are adopted more readily, risks are calculated more accurately, and inputs used more efficiently.

For individuals and families, household incomes and family welfare improve as education levels rise and more members develop economic skills. Education for girls and women is particularly important. As female education increases, health, sanitation, and nutrition practices tend to improve, infant mortality to decline, and birth rates to fall.

For society as a whole, basic education sufficient to make informed choices is key to noncoercive approaches to fertility and other personal decisions; to efficient functioning of market economies; and to full participation in modern social, economic, and political institutions.

As development proceeds, the required levels of general education rise and the needs for trained workers increase and diversify. Thus, human resources development is both a catalyst for development and one of the ongoing requirements for sustained development.

There is increasing recognition that alternatives must be sought in the financing of education and training programs. The key public policy issue is how best to allocate available resources between the specialized training programs and the general education systems. Countries need both. However, resources are not sufficient for both, perhaps for either, to be provided as free public goods. A priority task is to help countries assess existing capacities and practices to identify inefficiencies, strengthen key logistic and management systems, and explore administrative and financing options for education and training at all levels.

The World Situation for Basic Education

Most developing countries now enroll 70 to 80 percent or more of the children between the ages of 6 and 14. This represents substantial quantitative progress. However, schools in most developing countries are qualitatively poor and inefficient. Although most children enroll in school, generally fewer than half complete the primary cycle and continue to the secondary level. There are major disparities between and within countries, ranging from near universal enrollment in the wealthier countries and the urban areas of most countries to 30 percent or less in poorer and more rural areas.

All countries, including those making satisfactory progress in quantitative terms, face budgetary and administrative burdens that are unlikely to ease in the near future. Difficult choices must be made between the need to maintain existing capacity, the need for further investments to improve quality, and the need for expansion to accommodate additional children.

The World Situation for Advanced and Specialized Training

The most serious trained manpower shortages remain in the poorest countries such as those of Sub-Saharan Africa that have neither adequate technical training capacity nor broad-based general education systems. For other countries, the general shortages have eased considerably and the human resources development tasks are increasingly those of developing specialized skills and training capacities, providing local and external advanced training for key personnel, and working with employers to ensure that available skilled personnel are used effectively. A growing priority for all countries is training for self-employment and small-scale enterprise, the sectors likely to provide the needed employment growth. It is increasingly recognized that job creation is closely related to economic growth.

Education and Training Priorities for the Near Term

In addition to project-related training in all sectors, A.I.D. appropriations for education and human resources programs for FY 1987 are \$155.5 million, compared with \$173.5 million in FY 1986. In addition, about \$2-\$4 million is planned under the Sahel program and approximately \$50 million under Economic Support Fund programs.

Advanced training for administrators, managers, and scientific and professional personnel is the major emphasis in this sector in all regions. Such training accounts for over half the Development Assistance program and about two-thirds of Economic Support Fund programs in the education and human resources sector and 10 to 20 percent of other sector programs. A.I.D. supported over 15,000 individuals for training in U.S. institutions in FY 1986, representing an annual investment of \$150-\$200 million. In addition, A.I.D. supports training in local institutions, particularly project-related staff training at the technician level and skills training for small business, self-employment, and agriculture.

Programs supporting school system improvement and basic adult education are about 30 percent of the bilateral education and human resources effort, or \$40-\$50 million annually, with an additional \$20-\$30 million under Economic Support Fund programs. The major emphasis is on helping countries to allocate and use scarce educational resources more efficiently. Program priorities are education systems research and analysis, improvement of key administrative and management capacities, and adequate availability of essential instructional materials. A.I.D. is giving increased attention to local school administration and financing systems, including private schools, and is continuing a long-term program of experimentation on the use of radio and other media to extend education cost-effectively in rural areas. Twenty-five percent of A.I.D.'s education and human resources program supports projects in Africa, where education capacities are inadequate at all levels; 50 percent in Latin America and the Caribbean (about two-thirds for Central America); and 11 percent in Asia and the Near East. The remainder is allocated centrally in support of education and human resources programs in all regions.

International Assistance for Education Programs

Developing country expenditures on education and training total about \$60-\$70 billion. Total international assistance for education and training is estimated at \$4.5 billion. Almost 80 percent of this assistance comes from two sources: Organization for Economic Cooperation and Development countries (of which France, the United States, and the European Economic Community are the largest donors) and the World Bank (International Bank for Reconstruction and Development/International Development Association). U.S. bilateral programs (including project-related training in noneducation sectors) represent about 7 percent.

5.2.2 Population

The First Twenty-Five Years

In the early 1960s, rapid population growth characterized much of the developing world. At the same time, modern contraceptive technology gave couples in the United States the ability to control fertility easily and effectively and to make decisions concerning the number and spacing of their children. During the past 20 years, A.I.D.'s population assistance program has made possible widespread access to safe and effective family planning services in large parts of the developing world.

In the mid-1960s, Congress took the lead in providing funds for A.I.D. to support international family planning. Support was strongly bipartisan, and from the 1960s to the late 1970s the principal rationale for population assistance was to slow the rate of population growth in order to enhance the prospects for economic development. The United States, through A.I.D., also took the lead in encouraging other major international development agencies to become involved in population activities and in drawing attention to family planning programs as a policy issue for the attention of developing country governments.

A series of Knowledge Attitudes and Practices Surveys were conducted that demonstrated an unmet need on the part of men and women in developing countries for contraceptive services and dramatically illustrated that people were ahead of their governments on the issue of family planning. Building on this information, heads of state of developing countries progressively acknowledged family planning as an appropriate policy for governments to adopt and support. Currently, some 70 developing countries have adopted policies supporting family planning services as a means of reducing the birthrate.

During the 1970s, A.I.D. funded and established a network of private voluntary organizations, most of which are based in the United States, to further extend the provision of safe and efficient contraceptive measures to the developing world. These organizations provided technical assistance and training to interested governments and established several family planning projects on a pilot basis. Population officers were posted to USAID Missions, and bilateral assistance programs were begun in a number of developing countries.

The A.I.D. population program was both pioneering and effective in its goal of increasing access to family planning services for couples in the developing world. Some important innovations include the following:

- A worldwide procurement system for oral contraceptives that has made pills affordable to poor couples in the developing world
- Major advances in technology for delivering voluntary surgical contraception in remote, underserved areas
- Training in family planning for hundreds of thousands of health professionals including physicians, nurses, and paramedical personnel
- Community-based distribution systems that bring contraceptive services to villages and rural areas
- "Social marketing," that is, the distribution of family planning services through commercial retail outlets and the use of advertising techniques to promote awareness and knowledge of contraceptives
- Advances in contraceptive technology such as improved intrauterine devices and introduction of low-dose pills and progestin-only pills for lactating women

A number of family planning success stories took place in the 1970s and early 1980s, mostly in Asia but also, significantly, in Latin America. In Korea, Indonesia, and Thailand, over 65 percent of couples of reproductive age are currently using contraception. This compares with 70 percent of couples in the United States. In Mexico, the percentage of couples using family planning rose from 11 percent in 1973 to 48 percent in 1982. Even in Bangladesh, where access to services remains limited, contraceptive use rose from 7.7 percent in 1975 to 28 percent in 1985.

By the mid-1970s there was mounting evidence that provision of safe and effective family planning services on a voluntary basis helped to reduce growth rates and to improve maternal and child health. In the early 1980s, the health benefits of family planning to mothers and children were well documented by the World Fertility Surveys, a project initiated by A.I.D. and carried out in 26 developing countries.

Family planning and population programs have enjoyed the support of all administrations as well as bipartisan support from Congress. A.I.D.'s funding for population assistance was about \$5 million in 1967 when the Office of Population was organized as a separate entity. It rose dramatically to \$110 million in 1975. Under this Administration, funding for population activities increased from \$190 million in 1981 to a high of \$288 million in 1985.

The United States remains the principal donor in the population field, contributing more than 40 percent of international donor community support to family planning efforts worldwide. The U.S. Government has spent more than \$3 billion on family planning

programs over the past two decades, with the Reagan Administration contributing almost one-half (\$1.4 billion) of this funding.

Population Activities and Policy in 1986

In FY 1986, A.I.D. spent \$238 million on population activities. Population assistance is programmed to support family planning services in two principal ways:

- About half of the population funds are programmed through A.I.D.'s regional bureaus to both public and private entities in developing countries. These bilateral programs reach over 30 countries. In 1986, bilateral and regional projects received \$103.2 million: \$26 million in Africa, \$47 million in Asia/Near East, and \$30 million in Latin America.
- Through A.I.D.'s central programs, about half of population funds go to U.S. specialized firms, private voluntary organizations, and universities that in turn provide high-quality technical services to developing country programs. Technical assistance to developing countries through these central programs reaches some 80 countries, many of them in Africa. In 1986, U.S. cooperating agencies and contractors received \$134.3 million for centrally funded activities.

More than 80 percent of A.I.D.'s population budget was spent on family planning services, including training for doctors, nurses, and paramedics; local private family planning associations; government clinics and community programs; contraceptive supplies for government clinics, family planning associations, pharmacists, and retail shops; natural family planning; and support for voluntary sterilization services. Approximately 20 percent of the population funds were spent on research, including research to develop safer and more effective contraceptives.

Program activities in 1986 emphasized several innovative approaches to expanding access, including the following:

- Involvement of the for-profit private sector as a partner in expanding access to family planning services in developing countries
- Use of retail sales programs to increase access to family planning services
- Provision of information and family planning services to encourage birth spacing in order to improve the health of mothers and children
- Provision of a wide range of choices in family planning methods, including natural family planning
- Biomedical research into safer and better methods of fertility regulation, including natural family planning, and operations research into more effective service delivery and program management

Under the Reagan Administration, A.I.D.'s population policy has placed strong emphasis on providing family planning for the benefit of individuals and families. The provision of family planning services enables people to space their children and, if they desire, to have fewer children. When family planning services are available, families make decisions in their own interest based on their social, economic, and religious situation.

Family planning services also make a very important contribution to the health of mothers and children. Complications of pregnancy are a major cause of death for women in the developing world, and the risk of complications increases with the number of pregnancies and for women who are very young or at the end of their reproductive years. Family planning programs have major implications for child survival. Children born too soon after the birth of a sibling have a significantly greater risk of dying than do children born after a longer interval.

Another reason for making family planning services available is to reduce dependence on abortion for limiting family size. When couples want fewer children and family planning services are not accessible, couples often resort to abortion, even when it is illegal. It is estimated that 25 million abortions occur in developing countries each year compared with about 113 million births. Many of these abortions could be prevented if family planning services were available.

Programs supported by U.S. funds are voluntary and based on informed choice. The goal is to provide a range of safe and effective methods so that couples may choose the method appropriate to them. Family planning organizations receiving funds from A.I.D. must offer a range of family planning methods or must agree to refer couples to other sources of family planning.

A.I.D. has not funded any abortion activities since legislation was passed prohibiting it in 1973. Under this Administration, A.I.D. has taken further steps to dissociate U.S. funds from abortion. In 1984, the Agency stopped funding foreign nongovernmental organizations that use funds from any source to promote or provide abortion as a method of family planning. In countries where abortion is legal, the United States insists, through bilateral agreements, that funds be strictly segregated so that U.S. funds are not used for abortion activities.

Consistent with Congressional legislation passed in 1985, A.I.D. has withdrawn support from organizations that support or participate in the management of programs involving coercive abortion. In 1985, the United States withheld part of its contribution to the United Nations Fund for Population Activities (UNFPA) because of UNFPA's involvement with the family planning program in China. In 1986, the United States gave no funds to UNFPA. Release of funds designated for UNFPA for 1987 and subsequent years will depend on whether there are significant changes in either the UNFPA program in China or the Chinese population program that would make UNFPA eligible for U.S. support.

5.2.3 Health

Evolution of the Child Survival Approach

A.I.D.'s current policy to emphasize child survival interventions in its health assistance program evolved from Agency and other donor experience in the health sector. Past experience with infrastructure development, disease eradication, and comprehensive primary health care programs did not provide evidence of the improved coverage hoped for or of improvements in morbidity and mortality rates, particularly in children. The current policy also has been influenced by the availability and acceptability of technologies that have a dramatic effect on child survival.

In the 1960s, A.I.D. health sector funding emphasized infrastructure development, disease eradication, and vector control projects. In the 1970s, A.I.D. began to emphasize a primary health care approach. The U.S. government participated in the Alma Ata Conference and was a signatory to the 1978 Alma Ata Declaration supporting primary health care. By 1980, A.I.D. policy and program emphasis was on strengthening primary health care systems through training, health education, planning and evaluation, pharmaceutical supply, administrative and logistic support, and operational and applied research. Support for water and sanitation programs, disease control, and improved planning and management also was continued.

The primary health care concept was further refined in the A.I.D. Health Policy Paper of 1982, which emphasizes the importance of determining the relative efficiency of alternative health intervention packages and improved management and administration of these programs. Another focus was the promotion of economically viable health programs, emphasizing improved resource allocation, efficiencies, and self-financing. Finally, increased emphasis was given to biomedical research. Raising the health status of children and their mothers was a primary objective of A.I.D.'s 1982 health policy through a comprehensive approach to health care programs.

During the past few years, increased national (including Congressional) and international interest has focused on provision of selected child survival interventions as cost-effective and direct means of improving health and preventing mortality in developing countries. A.I.D. has agreed to assist in the achievement of international child survival targets by the end of the decade, including the development of sustained developing country capability to immunize children under 5 years of age and to provide universal access to oral rehydration therapy for diarrheal disease control.

A.I.D.'s child survival approach is consistent with, but more selectively focused than, the primary health care approach previously advocated. Initial emphasis on selected child survival interventions will provide the basis for more comprehensive primary health care services as other selected health interventions are added gradually. A.I.D. will support not only accelerated delivery of child survival services but also, and more important

investment in institutional development efforts that will ensure the sustainability of child survival services within each country.

In addition to the continued emphasis on providing primary care, current policy emphasizes the importance of the secondary and tertiary levels of the health system and their effect on child survival. Of particular importance is the financing of the resource management aspects of the system as a whole. Current policy also encourages direct attention to urban health problems. A.I.D. will continue to invest in basic and applied research to develop new technologies for child survival and to improve the delivery and effectiveness of existing technologies.

The Current Program

In 1986, A.I.D. adopted a child survival strategy that focuses on developing a sustained capacity in each country to effectively provide immunizations, oral rehydration therapy for diarrheal disease control, and two other important child survival interventions: birth spacing and nutrition. Other health interventions that are critical to achieving child survival goals, such as treatment of acute respiratory disease and malaria control, are also supported. In 1986, more than \$150 million in child survival, health, and other funds were devoted to carrying out the child survival strategy. A complete report of child survival activities for 1986 is presented in the 1986 Child Survival Report to Congress. A brief summary of A.I.D. efforts in child survival is presented here.

Oral Rehydration Therapy. A.I.D. has a long history of support for diarrheal disease control, especially for the development and dissemination of oral rehydration therapy to prevent and control dehydration due to diarrhea. From early support of the Cholera Research Laboratory (now the International Center for Diarrheal Disease Research/Bangladesh) to recent efforts to disseminate the message about oral rehydration therapy to families, A.I.D. has played a critical catalyzing role. There are now A.I.D.-supported oral rehydration therapy programs in more than 50 developing countries through direct government-to-government agreements, and many more are being mounted by private organizations and international agencies with A.I.D. funding. A.I.D. obligated more than \$35 million for oral rehydration therapy programs in 1986.

During the year, A.I.D. sponsored a second International Conference on Oral Rehydration Therapy (ICORT II), which was attended by over 1,200 participants from more than 100 countries. A.I.D. developed a diarrheal disease control strategy, emphasizing the importance of oral rehydration therapy (including oral fluid, feeding, and referral if necessary) in conjunction with improved preventive nutrition and hygiene practices. The Agency also continued to fund research on oral rehydration therapy and other diarrheal disease control measures. A.I.D. will continue this involvement in order to extend the message about oral rehydration therapy to additional populations and to consolidate recent worldwide gains in oral rehydration therapy coverage.

Immunization. In 1986, more than \$50 million was devoted to immunization services. Additional funds were obligated for immunization research, including a major effort to develop a malaria vaccine and efforts to develop vaccines against rotavirus, cholera, leprosy, and typhoid. Continued emphasis on immunization programs is planned in 1987 and beyond. This increased commitment to immunization programs will enable A.I.D. to make a significant contribution to the worldwide effort to achieve universal access to immunization by 1990.

An even bigger challenge is the goal of achieving 80-percent immunization coverage in countries in which A.I.D. has development programs, given that only an estimated 37 percent of children in developing countries receive a third dose of diphtheria-pertussis-tetanus (DPT) and polio vaccines and only approximately 19 percent are immunized against measles. A.I.D. has developed a long-term immunization strategy that focuses major efforts in selected countries and on children under 1 year of age for maximum effectiveness. The efforts of other donors have also been taken into account in developing A.I.D.'s strategy. Increases in worldwide immunization coverage will be reported each year in this report.

Birth Spacing. The link between birth spacing and child survival is strong and has been recognized by A.I.D. since it first began supporting family planning programs some 20 years ago. In the absence of appropriate birth spacing, prospects for child survival are significantly diminished. In 1986, A.I.D. continued funding a number of birth spacing interventions, including promotion of appropriate breast-feeding and provision of a full-range of voluntary family planning services and supportive activities. Most birth spacing activities are funded from the Population Account.

Nutrition. Despite the growing recognition that under-nutrition in childhood contributes more to child mortality than any other condition or disease, A.I.D. involvement in the effort to improve childhood nutritional status has lagged behind A.I.D.'s visible and pioneering efforts in other child survival interventions. There are several reasons for this lag, including the multifactorial causes of malnutrition, the behavioral nature of nutritional problems, and the lack of a simple technology to prevent or control the condition. However, A.I.D. has developed a strategy for nutrition for child survival that focuses on prevention of malnutrition in children under 3 years of age. Nutrition for child survival efforts include increased emphasis on improved child feeding practices, particularly breast-feeding, weaning, dietary management of diarrheal disease, and other behaviors amenable to nutrition-education interventions. Growth monitoring and supplementary feeding programs are the other major components of programs aimed at improved child nutrition and survival, both of which have been supported by A.I.D. for some 20 years.

Other Related Interventions. Lasting improvements in child survival cannot be realized by applying the same formula to every country or program. A.I.D. continues to support related health programs, specifically those designed to reduce diarrheal and parasitic diseases through improved water and sanitation systems and those designed to control malaria. The other group of diseases that disproportionately affects infants and young chil-

dren, the group known as acute respiratory infections, cannot be prevented by available technology. However, A.I.D. has begun to support research in this area and to support action programs at the village level to control acute respiratory diseases through early diagnosis and treatment.

5.2.4 Energy

Policy Objectives for Energy

A.I.D.'s energy assistance activities are designed to promote policy reform, especially with regard to energy prices and incentives for private investment; to expand the role of the private sector in energy conservation and the development and distribution of energy supplies, including fossil fuels, electric power, and renewable energy resources; and to expand the availability of energy for rural development and to provide for household needs, especially in rural areas.

The World Situation for Energy

During the last 3 years, world market prices for petroleum products have fallen sharply and now are at levels about one-third to one-half those prevailing in 1983. Prices are not expected to increase to the levels seen in the early 1980s for at least the next few years.

The general decline in petroleum prices has enabled 60 A.I.D.-assisted, oil-importing countries to save an estimated \$8 billion a year. The foreign exchange earnings of the 10 A.I.D.-assisted oil-exporting countries, on the other hand, have fallen between \$9 and \$10 billion a year. Despite oil price reductions, oil imports still account for 25 to 30 percent of export earnings for many A.I.D.-assisted countries, and energy investments--primarily for power--make up a large share of their development budgets.

Overall energy demand in developing countries is expected to continue to increase at higher rates than gross domestic product (GDP) growth, and demand for electric power is expected to increase an average of 6 to 7 percent. Energy consumption in developing countries will account for at least half the increase in total world energy consumption during the remainder of the decade. This increase will occur in response to general economic growth, population increases, and the urbanization of developing country populations. Requirements will increase for the conventional fuels used in the modern industrial, transport, and commercial sectors as well as for fuelwood and charcoal used by households and small industries.

Three-fourths of A.I.D.-assisted countries rely on oil for half or more of their commercial energy requirements. All but a few, such as Egypt, Oman, Indonesia, Ecuador, and Tunisia, must import their oil. Some A.I.D.-assisted countries have domestic fossil fuel resources or hydropower potential. However, investments for the exploration and development of fossil fuels have

declined sharply as investment budgets have been squeezed by declining oil income.

The increasing scarcity of wood fuels has created serious hardships in many A.I.D.-assisted countries. Prices for fuelwood and charcoal sold commercially have doubled in recent years. Where such fuels are not commercially traded, people now must travel longer distances to procure wood or agricultural wastes to meet their domestic energy needs.

U.S. Energy Assistance

In FY 1986, A.I.D. provided \$190 million under the Economic Support Fund for energy activities and \$50 million in Development Assistance funds. The share of energy activities financed by the Economic Support Fund has increased significantly and accounts for almost 80 percent of A.I.D. energy obligations. Economic Support Fund resources are used in Pakistan, Egypt, Sudan, and the Philippines to develop domestic energy resources, to expand electrical generation and transmission facilities, and to strengthen key energy institutions. Capital assistance, training, and technical assistance also are provided. Program activities include electricity generation and distribution in Egypt and Pakistan; rural electrification projects in Bangladesh; and rural electrification, conservation, equipment, and planning for the development of a private coal mine in Pakistan. In Central America, A.I.D. is financing an assessment of energy resources such as peat and geothermal.

The Development Assistance program supports energy policy initiatives, technical assistance, research, and training. A large share of the Development Assistance budget for energy--about 43 percent in FY 1986--was used to support activities related to fuelwood and other forms of energy from biomass. Major social forestry activities are underway in India, and forestry components are included in a number of natural resource management and agricultural programs. In Africa, A.I.D. supports small farmer agroforestry programs using multipurpose tree species to produce fuel, poles, fodder, and other forest products. Development Assistance funds also support energy conservation efforts.

A.I.D. is also supporting efforts to expand the private sector role in the electric power sector. Technical studies have been undertaken to assess the potential for private power generation in several Asian countries and to provide assistance to encourage private power generation. Studies are underway in a number of countries to develop systems for using waste products from sugar and rice cultivation to generate electric power for processing and for sale to other electricity consumers. Private companies are also playing an increasingly important role in joint ventures to develop local fossil fuel resources--such as the Lakhra coal facility in Pakistan.

Another U.S. agency, the Overseas Private Investment Corporation (OPIC) facilitates U.S. private investment in the development of oil and gas reserves in developing countries. In FY 1986, OPIC provided political risk insurance or financing to four oil and gas projects involving a total new investment of almost \$310

million in three developing countries. This is a far lower level than in FY 1985, reflecting the general lack of investor interest in pursuing oil exploration activities. (See Section 6.3 for more information on OPIC activities.)

Energy Prospects for the Near Term

During the next few years, petroleum prices are expected to remain soft because of excess productive capacity in Organization of Petroleum Exporting Countries (OPEC) and competition from non-OPEC producers. Many renewable energy technologies other than biomass and hydropower will continue to be uneconomic except in small-scale, high-value applications. Conservation investments will continue to be very cost-effective and essential for many firms in highly competitive market situations. The traditional fuel situation is not likely to change substantially in the near term.

5.2.5 Environment and Natural Resources

Policy Objectives for Environment and Natural Resources

A.I.D.'s environment and natural resource policy reflects the need to ensure that international development assistance activities are environmentally sound and the recognition that long-term economic growth depends on the maintenance of natural resources. A.I.D. assists developing countries to identify and solve their environmental and natural resource problems by strengthening their institutional and scientific capabilities. Areas of particular concern to A.I.D. are the need for conservation of biological diversity, the need for careful management of development programs in humid tropical forest areas, and the need to integrate a concern for natural resources in all development efforts. A.I.D. has issued guidance in the first two areas, and will issue guidance in the third, to assist its field Missions in formulating program activities and promoting appropriate policies with host governments. A.I.D. and OPIC also conduct environmental assessments of their major development projects.

The World Situation for the Environment and Natural Resources

Developing country resources of land, water, and vegetation are increasingly vulnerable to anthropogenic and natural threats. Drought, earthquakes, El Nino, pest outbreaks, and blight are examples of natural events that can significantly and negatively affect natural resources. Humans often exacerbate the effects of these natural disasters by following shortsighted agricultural and resource management practices. An example is the African famine, caused primarily by drought but prolonged and made more severe because of war and inadequate strategies to protect resources. Many of the effects of natural resource deterioration are irreversible or are extremely costly to arrest or reverse. Tropical forests are rapidly disappearing, resulting in significant environmental and economic loss as well as decreases in biological diversity. Semiarid rangelands are becoming deserts, and the

people they support are losing their food supplies and their way of life. Valuable top soil is rapidly eroding from steep hill lands, upland agriculture is becoming less sustainable, and productivity is decreasing. At the same time, urban areas in many developing countries are experiencing some of the world's worst air and water pollution.

A.I.D. Environmental Activities

A.I.D. carries out a broad range of environmental and natural resource management activities, including environmental assessments of all its major project activities. OPIC also assesses the impact of its proposed projects and encourages U.S. investors to take appropriate steps to mitigate adverse impacts. In addition, OPIC notifies host country officials of environmentally sensitive projects and provides such officials with summaries of relevant international and U.S. guidelines and regulations. OPIC also participates in the U.S. interagency task force on biological diversity.

Some A.I.D. development projects are concerned solely with the provision of natural resource information, technical or policy assistance to address critical environmental problems, or training of developing country personnel in natural resource management. For example, technical assistance has been provided to help farmers in Haiti adopt soil-conserving hillside farming techniques. In addition, technical assistance and training have been provided to a wide variety of African environmental agencies and to agencies responsible for the management of coastal areas in Asia and Latin America. In Panama, A.I.D. has strengthened local institutions by providing technical assistance and financial support for the formation of the Foundation of National Parks and Environment. Through this Foundation, disparate and diverse environmental groups can coordinate activities for more effective action and training.

In the Near East region, A.I.D. has a large, ongoing portfolio of capital projects that address the extremely serious environmental health problems of the urban poor by providing improved water supply and waste-water collection and treatment systems. These projects are supported by Economic Support Fund resources. There are also components of other projects that address these problems as part of coordinated efforts to improve urban housing and environment.

A.I.D. is working with the World Environmental Center and U.S. private businesses to improve the safety of and working conditions in potentially hazardous industrial facilities in developing countries and to develop emergency response measures to mitigate the effect of industrial accidents. In Jordan, Turkey, Indonesia, and India, A.I.D. is implementing training programs in these areas, assisted by environmental experts from major U.S. industrial corporations. It is anticipated that this program in industrial pollution, safety, and emergency procedures will be extended to Thailand and Pakistan, and private corporations have now developed and funded their own training program in Indonesia based on the A.I.D. model.

To expand our ability to respond to and anticipate global environmental concerns, A.I.D. has developed a comprehensive natural resource strategy for Africa. Many projects in Africa attempt to integrate and mutually enhance rural development and resource conservation activities. A few examples include (1) the Bururi Forest Project in Burundi, with the purpose of preserving one of two remaining high-altitude forests while developing new sources of forest products; (2) large-scale reforestation in Senegal; and (3) a workshop planned in coastal West Africa, in collaboration with the National Parks Service and the International Union for the Conservation of Nature and Natural Resources, to determine the concerns and priorities of coastal zone management, with the goal of defining appropriate actions in each country.

To more effectively encourage and promote environmentally sound development projects, A.I.D. is also increasing agency cooperation with multilateral development banks and bilateral donors on developing and implementing environmental impact assessments.

A.I.D. is continuing and expanding efforts to preserve biological diversity. In 1986 a draft Action Plan was developed to begin implementing action recommendations of the U.S. Strategy on the Conservation of Biological Diversity: An Interagency Task Force Report to Congress. As a result of the new amendment to the Foreign Assistance Act, and on the basis of an internal review of the draft Action Plan by A.I.D. and the environmental community, A.I.D. is expanding its biodiversity program.

As this broader Agency effort has been under development, specific actions to preserve biological diversity have been taken by central and regional bureaus and USAID Missions. For example:

- The Bureau for Asia and the Near East and the U.S. Fish and Wildlife Service developed a small grants program. Under this program, limited A.I.D. funds are used to leverage resources provided by grantees; in three countries, substantial amounts of local currency controlled by the U.S. Fish and Wildlife Service are also available.
- The Bureau for Latin America and the Caribbean and the Bureau for Science and Technology have jointly funded a grant to the Nature Conservancy International Program for the development and networking of conservation data centers in A.I.D.-assisted countries in South and Central America.

These activities provide examples of the continuing effort of A.I.D. and other agencies of the interagency task force to preserve biological diversity. Details of these and other efforts are summarized in Progress in Conserving Biological Diversity in Developing Countries: A Report to Congress on Implementation of Section 119 of the Foreign Assistance Act (A.I.D. February 1986). A similar document is due in February 1987 and is considered a companion to Development Issues.

A.I.D. has a continuing interest in pest control and is promoting integrated pest management. In Grenada, Peru, and Thailand, this approach is being supported through the Integrated

Pest Management and Environmental Protection Program, and a program in San Jose, Costa Rica, is providing technical assistance and training to countries served by the Regional Office for Central America and Panama (ROCAP) to promote regional integrated pest management. Other activities in pest management include the successful effort by the Office of U.S. Foreign Disaster Assistance and the Africa Bureau to control the recent locust outbreak in Africa. In related activities, A.I.D. is developing explicit guidelines for pesticide use and procurement financed by the Agency.

Environment and Natural Resource Prospects for the Near Term

Continuing deterioration of the natural resource base in developing countries is likely as the need for greater food supplies strains the capacity of existing agricultural land and water resources. However, with careful management and long-range planning, combined with appropriate government policies, many of these resources can be sustained and in some cases upgraded.

5.2.6 Human Rights

U.S. policy for human rights has steadfastly supported the enhancement of civil, political, and personal liberties. A.I.D. actively promotes human rights by encouraging programs that foster increased adherence to civil, political, and human rights in countries eligible for U.S. bilateral assistance. These programs encourage the building of institutions that promote civil and political rights and uphold democratic principles. This approach recognizes that in the long term, democracies are the best guarantor that civil and political rights will endure.

Authorized in 1978 under section 116(e) of the Foreign Assistance Act, as amended, A.I.D.'s human rights programs are indicative of the principles that reinforce this policy: (1) adherence to the rule of law through development of a legal framework that honors fundamental civil and political rights; (2) free, democratic, and well functioning electoral systems; (3) fair, independent, and accessible systems of justice that provide for due process; (4) the development of democratic principles, institutions, and organizations that promote human rights; and (5) increased access for women, ethnic groups, and other minorities to the judicial system and to political processes.

A principal strategy underlying section 116(e) initiatives is the strengthening of the host country's legal system through the institutionalization of the fundamental principles of law. The establishment of a vigorous and independent legal tradition will result in significant progress toward protecting the civil and political rights of all citizens of a nation.

Another principal strategy underlying section 116(e) initiatives is electoral reform. Although A.I.D. is prohibited by law from directly influencing the outcome of any election, A.I.D. is not prohibited from using funds for election reform and other related projects. By providing a nascent democracy with assistance that promotes the right to vote, the right to have secret

ballots, and the right to a fair and accurate count of the ballots, A.I.D. can help institutionalize the fundamental qualities inherent in free and fair elections. These concepts are fully consistent with U.S. foreign policy objectives and make the most effective use of scarce development resources.

Section 116(e) authorizes not less than \$3 million annually to be spent "for studies to identify, and openly carry out, programs and activities that will encourage or promote increased adherence to civil and political rights...." Human rights programs carried out in FY 1986 that are reflective of these principles include the following:

- \$400,000 to support technical assistance, training, and promotional activities of the Center for Electoral Assistance and Promotion (CAPEL), aimed at improving electoral processes and encouraging free and fair elections in the Latin America and Caribbean Region
- \$190,000 to Cultural Survival, Inc. for the culmination of a 4-year program to promote and protect the human rights of Indians in Latin America
- \$15,613 to The Asia Foundation for the enhancement of institutional resources of selected Asian law schools by providing their libraries with publications and other materials on human rights and development
- \$45,000 for legal and human rights training of 10 Chadian magistrates (8 men, 2 women) in a 2-year program at Mali's Institut National de Formation de Magistrates in Bamako
- \$86,472 to the Bangladesh Society for the Enforcement of Human Rights to strengthen its services in the area of legal literacy and the dissemination of human rights publications, and an outreach program that will assist legal programs in rural districts of Bangladesh
- \$105,000 in Rwanda for 9 months of training for 30 judiciary personnel at the National Centre for Judiciary Training and Promotion of Human Rights aimed at fostering judicial respect for the rights of the accused and those in detention

Through implementation of section 116(e) since its inception in 1978, A.I.D. has had an effective and important impact on human rights policy in Third World nations in Asia, the Near East, Africa, and Latin America and the Caribbean.

5.2.7 Women in Development

Over the past 15 years, gender awareness in development planning has been increasingly recognized as one of the cornerstones of successful economic development. A.I.D.'s Office of Women in Development (WID) was established in 1974 in response to this recognition, mandated by section 113 of the Foreign Assistance Act. A.I.D.'s Women in Development Policy Paper, published

in 1982, is grounded in the belief that women's participation in agriculture, small-scale enterprise, education and training, water use and sanitation, and natural resource management is critical to the economies of developing nations. No development scheme can be fully effective or successful if it does not take into account women's activities in these areas, both as participants and as beneficiaries.

The WID Office functions as a catalyst in the process of integration, providing information and training on gender-sensitive development planning; funding innovative pilot projects to encourage attention to gender-related issues in planning; and working with private voluntary organizations, in the United States and the Third World, and with multilateral institutions to promote a similar emphasis in all channels of development. The current approach, adopted in the 1980s, is to use small amounts of the WID Office's funds to develop gender-aware subprojects, pilot activities, and components of larger A.I.D. field projects. The strategy of introducing a women-in-development perspective in the Agency's activities replaces the 1970s approach of supporting women-specific projects; designed for women only, these projects often further removed women from the mainstream of the development process.

Efforts to institutionalize gender analysis skills among A.I.D. and host country personnel during FY 1986 revolved around a number of core activities. One of the most wide reaching was the fielding of technical assistance to A.I.D. regional and central bureaus and to Missions all over the world. Under a cooperative agreement with an international research organization, Missions were able to "buy in" to this agreement to obtain project-specific technical assistance for incorporating gender issues into ongoing or proposed projects. A grant to a Title XII land grant university consortia also enabled the WID Office to provide technical assistance to the field. Under both arrangements, researchers gathered gender disaggregated data on the actual and potential roles of women in developing countries; performed socioeconomic analysis with respect to project goals; assessed the potential for, or existence of, any unintended isolation of women; and suggested appropriate adaptations in project design and implementation.

In the continuing effort to increase awareness and integration of gender issues, the WID Office initiated a series of sector-specific guidance manuals on gender issues, designed as "how to" guides for A.I.D. professional staff and other development planners. Guides will be distributed in FY 1987 for the following sectors: small-scale enterprise, agriculture, education and training, energy and natural resources, agribusiness, and urban development.

Convincing host countries of the economic value of women's work is critical to the continuation of integrated development in this era of stringent budget cuts in foreign assistance among donor countries. With this goal in mind, A.I.D.'s WID Office contracted with two U.S.-based, not-for-profit research organizations to carry out the Gender Resource Awareness in National Development (GRAND) project. GRAND is designed to increase understanding among developing country policy- and decision-makers and A.I.D. personnel of the direct and indirect benefits of women's

and girls' current and potential contributions to the development of their countries. As a collaborative effort among host country governments and institutions, A.I.D. Missions, and GRAND project staff, the project develops microcomputer-based analyses and models that demonstrate the economic impact of effective participation of women and girls in different economic sectors, tailored to each country situation. Implementation began in September 1986, with as many as 12 countries receiving GRAND assistance over the course of the following 3 years.

Other projects supported by A.I.D. during FY 1986 include a worldwide banking/loan guarantee project, initially cofunded by the WID Office and the Bureau for Private Enterprise, which provides credit throughout the developing world to strengthen the role of women entrepreneurs in the private sector. Building on a previous undertaking with the Bureau of the Census, the WID Office continued supporting efforts to update available census data and to strengthen the training of host country personnel (conducted by the Bureau of the Census International Division) in gender disaggregation of data and research into gender issues. Finally, in keeping with A.I.D.'s emphasis on training for developing country nationals, women from developing countries were brought to the United States during 1986 for management and agricultural production training. A.I.D. will continue to work for a greater integration of women into all U.S.-based training programs in 1987 and will encourage Mission funding of female candidates.

Gender awareness has become essential to modern development planning, with the critical role played by developing country women in their national economies becoming evident all over the world. A.I.D. is helping Third World countries to recognize valuable human resources that were undertrained, undereducated, underemployed, and underutilized over the course of the first 25 years of development. Women are an integral part of a nation's economy, and without them successful development can never be achieved.

5.3 IMPLEMENTATION MODES

A.I.D. conducts many major assistance programs using different implementation modes within its overall program. This section describes three of these modes that reflect the Agency's efforts to concentrate on specific development problems.

5.3.1 Private Voluntary Organizations

The A.I.D./private voluntary organization (PVO) partnership has a long, rich history dating to reconstruction efforts in Europe after World War II. It is a partnership based on the mutuality of A.I.D. and PVO interests in fostering self-help development in the Third World. PVOs have a diversity of strengths and share the U.S. commitment to overcoming problems of hunger, illiteracy, disease, and early death in the poorer countries of the world. Solutions to these problems are integral to achieving economic growth and development. Success in A.I.D. and PVO programs flows from a joint understanding of what each does

best. PVOs provide important institutional structures through which considerable private, nongovernmental resources flow to the developing countries--resources reportedly worth over \$1.8 billion in 1985. A.I.D.'s financial support enables PVOs to expand and strengthen their technical capabilities in the development programs they are conducting in over 60 countries in such critical development programs as credit and entrepreneurial advisory services, health services, forestry, appropriate technology, and agricultural development.

Besides providing material resources, PVOs have a proven ability to tap the U.S. human resource base to transfer know-how to the developing world. PVOs have excelled in extending to remote communities of developing countries programs such as small enterprise development; primary health care (particularly in demonstrating basic health care practices such as oral rehydration, immunization, and simple first aid); assisting communities to preserve their natural resources (whether through reforestation, land terracing, or other methods); and credit delivery to men and women unreached by the formal sector.

In FY 1986, A.I.D. continued its active support for and collaboration with PVOs. In addition to encouraging the participation of several of the larger PVOs in the distribution of PL 480 Title II commodities, A.I.D. has committed almost \$450 million in grants and contracts to PVOs representing a wide variety of resources and skills. A.I.D. is committed to pursuing jointly with PVOs international programs in disaster relief, food distribution, operation of overseas schools and hospitals, primary health care, rural technology, nonformal education, and other skill-transfer programs.

5.3.2 Institutional Development

A.I.D. has viewed institutional development as an important component of development assistance for many years. A.I.D.'s policy is to assist recipient countries to establish and strengthen public and private institutions in support of mutually agreed, priority development objectives.

The Agency's direct institutional development efforts are focused primarily on key organizations that promote country development, such as ministries of finance and planning, agricultural research institutes, universities, cooperatives, credit unions, and farmers associations. Institutions in the less tangible sense of the word, for example, the economic, political, or legal institutions of a given country, are recognized as highly important factors influencing a country's development potential, which must be taken into account in development planning.

The Agency's position is that effective institutions will both enhance a country's ability to marshal its own human and financial resources for development and increase the likelihood that A.I.D. and host country resources will foster development that can be sustained after external assistance is withdrawn. In the experience of A.I.D. and other donor agencies, effective institution building requires multiple foci on such considerations as the organizational and managerial capacity of leadership and

staff, an adequate financial base to sustain the institution and to continue to produce needed goods and services, active support from beneficiary clientele, and supportive host country policies. Achieving effective institutional development requires a continuing and long-term emphasis on these factors in A.I.D. project and sectoral programs.

To increase the likelihood of achieving sustainability of both development benefits and the institutions through which they are implemented, the Agency is now taking several measures. These measures include (1) applied research to find and implement means for institutions to meet their recurrent and capital costs for development activities; (2) more leadership and managerial training of host country personnel; and (3) efforts to define better linkages and communication between local development institutions and their beneficiary communities to ensure the appropriateness, quality, and timeliness of the provision of needed goods and services. A.I.D. has also increased policy dialogue with host country governments to achieve a more favorable climate for key institutions engaged in development activities.

Heightened recognition of the link between sound institutional development in donor-assisted countries and the continued growth and sustainability of development program benefits in all sectors has been an important breakthrough in the development community internationally. The Agency will continue to take an active lead in implementing both new and proven approaches to achieve these crucial development goals.

5.3.3 Evaluation

A.I.D. has long recognized the importance of evaluation in developing and managing its activities and in assessing lessons learned from past projects that can help to guide future assistance efforts. The United States continues to endorse donor attention to evaluation and participates actively in the work of the Development Assistance Committee's Expert Group on Evaluation. In addition, A.I.D. is encouraging developing countries to use evaluation as a tool in effective project design and implementation and as an element of improved institutional capability to manage development activities.

In A.I.D., the evaluation function is driven by the information needs of planners and managers of assistance programs. The focus on utilization encourages evaluators to be responsive to short-term operational requirements and to ensure that longer term planning and policy formulation benefit from accumulated knowledge and experience. Recent trends in U.S. evaluation efforts reflect a bilateral assistance emphasis.

- In response to its growing level of nonproject assistance, A.I.D. has extended the scope of evaluation to include guidelines for evaluating commodity import programs, policy reform programs, and other types of nonproject activities.
- Evaluations are being designed to cut across traditional evaluation categories and topics, such as sustainability

of projects and recurrent cost implications, alternative implementation approaches and their comparative cost-effectiveness, project impact on the role of women in development, and the contribution of aid to the development of effective local institutions in the private and public sectors.

- The role of evaluation is being extended in comprehensive planning processes beyond the level of specific project and nonproject activities. This has entailed the greater use of evaluation findings and lessons in the preparation of long-term A.I.D. country development strategies and has resulted in clearer statements of development strategy benchmarks against which results can be measured.
- A formalized linkage between evaluation and policy formulation is being established. A series of A.I.D. Policy Papers has drawn on evaluated experience, including the cumulative findings of the Agency's project and program "impact" evaluations.
- Evaluation work is being planned with greater attention to the timing of key decision points in the program and project cycle, in an effort to provide evaluation information when it is most useful.
- Innovative evaluation methods are being applied for assessing interim impacts while a project or program is still being carried out.
- A.I.D. is issuing new guidance on evaluation that builds on these recent efforts and that emphasizes the use of evaluation as a management tool in improving the performance of projects and programs in promoting development objectives. This guidance includes a new "A.I.D. Evaluation Handbook" covering policies and procedures, as well as practical guidelines on evaluation methods.

The synthesis of evaluation findings and lessons learned is particularly important for policymakers, planners, and project designers as a basis for comparing and selecting alternatives. A.I.D.'s evaluation staff emphasizes the analysis, synthesis, and dissemination of experience in selected development topics. Partly to support this effort, A.I.D. combined its central evaluation, information, and statistical offices into a single unit, the Center for Development Information and Evaluation. Concurrent with this effort, A.I.D. is vigorously applying existing requirements that call for consideration of evaluation findings and lessons in project and program design in order to establish in the designs themselves a firm basis for future monitoring and evaluation.

5.4 DISASTER AND REFUGEE ASSISTANCE

5.4.1 Disaster Assistance

The Office of U.S. Foreign Disaster Assistance (OFDA) in A.I.D. is responsible for responding to disasters overseas; providing relief assistance to foreign nations; and providing assistance in contingency planning, training, preparedness, and warning.

The goal of this program is to save lives and reduce the suffering of victims in foreign countries that are stricken or imminently threatened by disaster. Reducing property loss and subsequent economic and social impacts are also crucial to the goals of development in the Third World.

While disasters may strike anyone, anywhere, and at any time, developing countries are particularly vulnerable. In addition to destroying lives, livelihoods, and property, disasters frequently damage the vital infrastructure needed for social and economic development. In seeking to help relieve suffering caused by disasters, the United States is also able to demonstrate U.S. goodwill, generosity, and concern for disaster victims around the world.

During the 22 years since its inception in 1964, OFDA has responded to 865 disasters in 129 countries in which an estimated 2.75 million people have died and over 800 million have been affected. Immediate and effective relief remains A.I.D.'s constant and primary goal in disaster assistance. Toward that goal, the A.I.D. Administrator, who serves as the President's Special Coordinator for International Disaster Assistance, maintains constant readiness within OFDA to speed relief to disaster victims wherever they may be.

The effectiveness and efficiency of the U.S. Government's foreign disaster response have grown significantly over the years. Using the most appropriate resources of other U.S. Government and State agencies, the private sector, and voluntary agencies, A.I.D. delivers the right commodities and services to the suffering victims as soon as possible. As victims' needs are defined, OFDA manages the relief response and supports documented requirements as they arise.

Chapter 9 of the Foreign Assistance Act of 1961, as amended, authorizes assistance for relief and rehabilitation for natural and human-caused disasters, as well as assistance relating to disaster preparedness, prediction and early warning, and contingency planning for natural disasters. Four objectives address the goals of saving lives after a disaster and reducing the likelihood of loss of life in the event of a disaster.

1. Alleviate suffering and reduce the number of deaths in the aftermath of disaster by providing efficient, rapid, and appropriate responses to requests for emergency relief, and enhance recovery through rehabilitation programs

2. Promote self-reliance among responsible officials within disaster-prone nations by training them in contingency planning and disaster management to improve the effectiveness and efficiency of emergency response
3. Preserve life and prevent suffering through disaster avoidance by providing sufficient warning of natural events that cause disasters
4. Reduce the loss of life by introducing low-cost practical measures that have proven effective in mitigating the impacts of probable disasters

Emergency relief has been the primary goal of A.I.D.'s disaster assistance program since 1964. Contingency planning and preparedness have been instrumental in assisting disaster-prone nations achieve self-reliance since 1969. Disaster prediction and early warning have been addressed at the national, regional, and worldwide levels since 1979. In the past few years, A.I.D. has identified and continues to demonstrate the effectiveness of disaster mitigation and early warning.

The significant demands for assistance in 1986 and new opportunities for contingency planning, preparedness, warning, and mitigation have led OFDA to prioritize its program activities in terms of available resources and the likely threat of disaster. This process has resulted in a pragmatic strategy based on regional requirements; co-funding commitments by A.I.D. bureaus and other donors; and political, social, and economic considerations related to the vulnerability of threatened populations.

5.4.2 Refugee Assistance

Because developing countries often bear the greatest burden for hosting current refugee populations, international assistance is essential to mitigate the negative impact of these flows. Programs designed to assist refugees in developing countries must also consider the development needs of the host country.

The United States defines refugees as people who have fled their countries because of persecution, or a well-founded fear of persecution, for reasons of race, religion, nationality, membership in a particular social group, or political opinion. This is the definition of "refugee" contained in the U.N. Convention and Protocol on the Status of Refugees.

The United States is the largest contributor to international assistance programs for refugees and, in accordance with the policy of the U.N. High Commissioner for Refugees (UNHCR), works for resolution of refugee situations through (in order of preference) (1) voluntary repatriation, (2) settlement in first-asylum countries, and (3) when neither of the first two solutions is feasible, resettlement in third countries, including the United States.

Major U.S. policy goals for refugee programs in FY 1987 include the following:

- Continuing to assert a leading role in the United Nations to coordinate the response of the international community to refugee problems
- Working to increase the operational effectiveness of international organizations responsible for refugee-related matters
- Promoting greater burden-sharing among donor nations for refugee assistance
- Taking actions to preclude new refugee flows and to promote lasting solutions that minimize the need to resettle refugees in the United States
- Admitting refugees to the United States where other solutions are not available
- Ensuring that refugees admitted to the United States receive proper pre-arrival language and cultural orientation training, and monitoring reception and placement services to promote efforts toward refugee self-sufficiency

Africa. Drought and ensuing famine in Africa, combined with civil strife, spurred massive movements of people across national borders between 1984 and 1985. These movements increased the number of refugees on the continent by 40 percent, strained the capacity of international relief mechanisms, and worsened the situation of established refugee populations in several African host countries.

During 1986, the refugee situation in Africa remained complex and dynamic. Many countries were concurrently generators of and receivers of refugees. For example, while there are approximately 650,000 Ethiopian refugees in eastern Sudan, the number of Sudanese refugees crossing into the Illubabor Province of Ethiopia reached 109,000. Repatriation movements in the Horn of Africa were offset by unprecedented refugee flows in the southern region. Therefore, the number of refugees in Africa, estimated at 2.8 million, remained virtually constant during 1986.

Relatively abundant rains in Africa during 1986 eased the effects of drought in many countries, particularly those in the Horn of Africa. Significant numbers of Ugandans, Ethiopians, and Chadians returned home to improved agricultural opportunities and more stable political environments. International appeals launched on behalf of returnee populations engaged developmental agencies to design and implement rehabilitation schemes that would reintegrate returnee populations into their home regions.

The refugee problem in southern Africa affects all countries in the region. Angola, Mozambique, Namibia, and South Africa have generated about 900,000 refugees, while Angola, Mozambique, and South Africa have internally displaced needy populations of several million more. The situation in southern Africa had reached emergency proportions by the end of 1986; however, international agencies were well engaged in averting a major human catastrophe in the region.

The United States is the single largest financier of international assistance to African refugees. Through the Bureau for Refugee Programs, the U.S. Government traditionally finances 30 percent of the UNHCR program in Africa and 25 percent of the International Committee of the Red Cross (ICRC) activities, reflecting our commitment to a multilateral response to African refugees' needs. Under the Migration and Refugee Assistance appropriation and the President's Emergency Refugee and Migration Assistance Fund, the U.S. Government contributed \$42.1 million to UNHCR programs in Africa and \$21.85 million to ICRC activities during FY 1986. These included ongoing assistance programs as well as contributions to UNHCR's emergency appeals in support of Ethiopian and Chadian refugees in Sudan, Ethiopian returnees from Somalia and Djibouti, Ethiopian refugees in Somalia, and returnees in Uganda. The U.S. Government also made available to refugees food commodities valued at about \$24 million, educational scholarships (\$2.2 million), and bilateral development contributions to several host countries totaling about \$8.3 million.

As the emergency subsides in the Horn of Africa, plans must be made for follow-on reintegration and rehabilitation programs to promote lasting solutions for African refugees/returnees. However, the growing emergency in southern Africa may lead to a search for additional financial support to address the needs of these victims of civil unrest.

Afghan Relief. Afghans in Pakistan continue to constitute the single largest group of refugees in the world. The Government of Pakistan reports registration of over 2.9 million Afghans, and numbers continue to grow: up to 70,000 Afghans entered Pakistan between July and October 1986. Since the initial influx in 1978, both the Government of Pakistan and the international community have been generous in providing for the needs of the refugees. The United States has been a major supporter of the relief effort, providing over \$530 million since 1980--including almost \$320 million worth of commodities--to the UNHCR, World Food Program, and several other international and private voluntary organizations.

In keeping with Government of Pakistan policy, several relief organizations have expanded their programming to include projects that address the longer term needs of a population with no immediate prospect of voluntary repatriation. Greater emphasis is now placed on enhancing refugee self-reliance through programs that provide general education, vocational training, and follow-on job opportunities. Special efforts are being made to provide female refugees with income-generating skills compatible with local customs. The World Bank, in conjunction with the UNHCR, has also launched a series of reforestation, irrigation, and road building projects designed to employ refugee labor in repairing environmental damage caused by the refugees' presence.

Near East. The continuing strife in Lebanon generated new requirements for relief for refugees and displaced persons. The U.S. Government contributed \$67 million to the United Nations Relief and Works Agency (UNRWA) for Palestinian refugees in the Near East during FY 1986. UNRWA programs provide education and medical care to over 2 million Palestinian refugees in the Near East.

Latin America. The total number of refugees and displaced persons in the region stabilized somewhat during 1986. Substantial U.S. support was given to international organizations for refugee assistance in Latin America. In addition, there is a large U.S. program for displaced persons (those fleeing conflict or civil strife but remaining within the borders of their own country) in El Salvador.

Southeast Asia. The United States and other donors support the efforts of the UNHCR and private voluntary agencies to provide care for more than 125,000 Indochinese in the first-asylum camps of Southeast Asia. Additional assistance is provided to the United Nations Border Relief Operation for nearly 260,000 Cambodians on the Thai-Cambodian border. Thai villagers affected by the refugee influx are assisted through a \$5 million Economic Support Fund program.

CHAPTER 6

U.S. PROGRAMS TO PROMOTE DEVELOPMENT

6.1 U.S. BILATERAL ECONOMIC ASSISTANCE

In the allocation of U.S. economic and development assistance, improved coordination of resources in support of U.S. foreign policy is a major consideration. Key elements of the approach include the following:

- An explicit statement of the foreign policy framework, setting forth objectives and analyzing the contribution of each foreign assistance program--military, economic development, and food aid--to the attainment of these objectives
- Use of an integrated budget process in which all available foreign assistance resources are allocated within the context of general U.S. 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

Within this framework, bilateral U.S. economic assistance flows from four categories:

- **Development Assistance** expands economic and social opportunities with programs in sectors that promote equitable economic growth.
- The **Economic Support Fund** promotes economic and political stability in countries or regions where the United States has significant security interests and where the United States has determined that quick impact or large financial commitments are needed to avert major economic or political crises and help secure peace.
- The **Public Law (PL) 480 Program** (Food for Peace) combats hunger, encourages development, and expands markets for U.S. farmers.
- The **Housing Guaranty** program secures nonappropriated funds from U.S. private capital markets, at close to market rates of interest, to improve housing for low-income inhabitants of borrowing countries.

The amounts obligated or requested under these budget categories in FY 1985, FY 1986, and FY 1987 are shown in Table 6-1.

All forms of assistance are allocated in the context of their contribution to the promotion of U.S. interests in a region or country. However, U.S. country and regional interests are seldom singular. Assistance criteria can include any of the following:

- Access to raw materials important to U.S. industry
- The possibility of destabilizing conflict
- The presence or prospect of considerable U.S. private investment
- The relative importance of medium- as well as short-term U.S. interests
- The character of the country's overall relations with the United States
- The country's position on human rights
- The extent of the country's efforts to acquire nuclear weapons

Table 6-1. U.S. Bilateral Economic Assistance Obligated or Estimated, FY 1985-1987 (\$ millions)

Budget Category	FY 1985 Actual	FY 1986 Actual	FY 1987 Estimate ^a
Development Assistance (functional accounts plus Sahel Program)	1,862.3	1,698.6	1,481.0
Economic Support Fund	<u>5,247.4</u>	<u>4,913.0</u>	<u>3,943.5</u>
Subtotal: A.I.D.	7,109.7	6,611.6	5,424.5
PL 480 Food Aid (Titles I, II, III)	<u>2,167.8</u>	<u>1,717.5</u>	<u>1,463.1</u>
Total Appropriated Funds	9,277.5	8,329.1	6,887.6
Housing Guaranty Program ^b	160.0	145.5	145.5

^aIncludes FY 1987 Supplemental Request.

^bU.S. Government guarantees rather than expenditures of appropriated funds. Estimates.

Additional, and equally important, criteria for the allocation of Development Assistance to a country are the following:

- The country's need, especially as measured by per capita income; the availability of food; and access to minimum health care and education services
- The country's economic progress and prospects, including its ability to effectively use U.S. assistance
- The country's commitment to policies that promote growth

The terms of U.S. assistance also emphasize U.S. support of the poorer developing countries. The least developed countries receive nearly all assistance in the form of grants. Countries that are somewhat more developed economically, but nevertheless still poor, receive a balanced mix of concessional loans and grants. Programs that directly assist the private sector of developing countries can be provided on commercial rather than concessional terms.

Using these criteria, in FY 1986 the United States allocated to low-income (International Development Association [IDA]-eligible) developing countries 50 percent of all funds (Development Assistance and Economic Support Fund) available to country programs (see Table 6-2). Of the 36 nations on the U.N. "least developed" list, 29 accounted for 7 percent of country-allocated bilateral assistance in FY 1986. Regional allocations under Development Assistance, Economic Support Fund, and PL 480 are shown in Table 6-3 for FY 1985 and FY 1986. In FY 1986, Latin America and the Caribbean received the largest share of Development Assistance funds directly allocated by country, followed by Asia/Near East and Africa. The Asia/Near East region absorbed nearly 82 percent of the Economic Support Fund in FY 1986, with the majority of that amount going to Egypt (\$1,068 million) and Israel (\$1,898 million). Of the PL 480 total, Asia/Near East accounted for 43 percent, Africa 20 percent, and Latin America and the Caribbean 15 percent.

6.1.1 Development Assistance

Development Assistance programs reflect legislation that encourages A.I.D. to broaden economic opportunity in developing countries through support of sectors that most directly promote equitable economic growth. Development Assistance programs are concentrated in countries where U.S. assistance is needed, where there is a clear commitment to broadly based growth, and where the United States has a strong and long-term interest in development. Development Assistance programs are described below. (Refer to Chapter 5 for more detail concerning U.S. policy and programs in the activities funded under these accounts.)

The Agriculture, Rural Development, and Nutrition Account continues to absorb the largest portion of functional Development Assistance. The majority of the resources provided under the Sahel Development Program also are used to improve agriculture. The objectives of this assistance are to enable countries to become self-reliant in food, to ensure food security to their populations, and to contribute to broadly based economic growth. To accomplish these objectives, three elements are emphasized:

- Improving economic policies in developing countries to remove constraints to food production, marketing, and consumption
- Expanding the role of the developing country private sector in agricultural and rural development and the complementary role of the U.S. private sector in assisting this expansion

-- Developing human resources and institutional capabilities in developing countries and conducting research on food and agricultural problems

Table 6-2. A.I.D. Functional Development Assistance (DA-- includes Sahel) and Economic Support Fund (ESF) Programs by Economic Level of Recipient Country, FY 1985-1987 (\$ millions)

GNP per Capita	Fiscal Year	Total	DA	ESF
Greater than \$806	1985	3,098.7	268.2	2,830.5
	1986	2,870.6	219.2	2,651.4
	1987	2,089.6	171.2	1,918.4
Between \$411 and \$805	1985	2,086.4	322.9	1,763.5
	1986	1,989.9	316.5	1,673.4
	1987	1,733.5	247.9	1,485.6
Between \$0 and \$410	1985	997.0	526.6	470.4
	1986	912.6	502.2	410.4
	1987	778.1	401.4	376.7
Interregional and Regional Programs	1985	908.8	744.6	164.2
	1986	818.6	660.7	157.9
	1987	816.4	660.5	155.9
Total	1985	7,090.9	1,862.3	5,228.6 ^a
	1986	6,591.7	1,698.6	4,893.1 ^{a b}
	1987	5,417.6	1,481.0	3,936.6 ^a

Note: The data above include Israel, Egypt, and Turkey. (The Economic Support Fund allocations to Israel were \$1,950 million, \$1,898 million, and \$1,200 million in FYs 1985, 1986, and 1987, respectively. The corresponding figures for Egypt were \$1,065, \$1,068 million, and \$815 million; for Turkey, \$175 million, \$120 million, and \$100 million.) Israel and Turkey are in the top group and Egypt is in the next group in terms of GNP per capita. All 1987 data are estimated.

^aNo GNP per capita figures were available for Lebanon. U.S. obligations for Lebanon under the Economic Support Fund were \$18.8 million in FY 1985, \$15.9 million in FY 1986, and \$7.0 million in FY 1987.

^bNo GNP per capita figures were available for Poland. The United States obligated \$4.0 million to Poland in FY 1986 under the Economic Support Fund.

Source: GNP per capita data from World Bank Atlas, 1986.

Table 6-3. Obligations for A.I.D. and PL 480 Programs,
by Region, FY 1985 and FY 1986

Budget Category and Region	Amount (\$ millions)		Percentage	
	FY 1985	FY 1986	FY 1985	FY 1986
Development Assistance (functional accounts plus Sahel Program)				
Africa (includes Sahel Program)	352.2	378.9	18.9	22.3
Asia/Near East	493.9	442.1	26.5	26.0
Latin America & Caribbean	507.4	461.5	27.2	27.2
Interregional	508.8	416.1	27.3	24.5
Total	<u>1,862.3</u>	<u>1,698.6</u>	<u>100.0</u>	<u>100.0</u>
Economic Support Fund				
Africa	417.8	245.2	8.0	5.0
Asia/Near East	3,837.5	4,006.4	73.1	81.5
Latin America & Caribbean	985.0	658.1	18.8	13.4
Interregional	7.0	3.3	0.1	0.1
Total	<u>5,247.3</u>	<u>4,913.0</u>	<u>100.0</u>	<u>100.0</u>
PL 480 (Food for Peace)				
Africa	235.4	341.5	10.9	19.9
Asia/Near East	710.5	733.6	32.8	42.7
Latin America & Caribbean	300.2	260.1	13.8	15.1
Interregional ^a	921.7	382.3	42.5	22.3
Total	<u>2,167.8</u>	<u>1,717.5</u>	<u>100.0</u>	<u>100.0</u>
Housing Guarantee Program^b				
Africa (includes Sahel Program)	15.0	--	9.4	0.0
Asia/Near East	85.0	65.0	53.1	44.7
Latin America & Caribbean	30.0	45.0	18.8	31.3
Interregional	30.0	35.0	18.8	24.1
Total	<u>160.0</u>	<u>145.0</u>	<u>100.0</u>	<u>100.0</u>

^aIncludes Europe, World Food Program, emergency reserve, stock adjustment for PL 480 Title II, ocean transport for PL 480 Titles I and II, initial payment on commodities by recipient countries under PL 480 Title I, and prior year obligations financed during current year.

Despite remarkable progress in increasing life expectancy and lowering infant mortality in recent years, the health of the majority of people in most developing countries remains poor. In some of the poorest countries, as many as one-fourth of the children die before the age of 5 years. Hundreds of millions of adults suffer from chronic, debilitating diseases. The basic objective of programs under the Health Account and the Child Survival Fund is to assist developing countries to become self-sufficient in providing broad access to cost-effective preventive and curative health services. Primary health care, with special emphasis on infants and children under 5 years old, remains A.I.D.'s top priority in its health assistance efforts. Within the broad framework of primary health care programs, A.I.D. is concentrating on the following activities:

- Expanding immunization, oral rehydration therapy, and other health services for infants and children under 5 years old
- Improving the effectiveness and financial viability of basic health services
- Decreasing death and disability from infectious diseases
- Improving sanitation and the availability and quality of domestic water supplies

A.I.D. stresses private sector approaches to providing basic health care and emphasizes the need to introduce cost-recovery measures into public health programs of developing countries. A.I.D. continues to provide support for a broad range of indigenous institutions involved in the promotion of health, including women's groups, universities and research institutions, village-level health committees, private sector health practitioners and enterprises, and private voluntary organizations (PVOs). A.I.D. also is increasing its support for technology development, adaptation, and transfer, principally through biomedical research relevant to health problems in developing countries.

All developing countries continue to have specific needs for more trained personnel. Most countries continue to struggle with the difficult task of expanding their school systems to enable children to obtain a basic education. Under programs in the **Education and Human Resources Account**, high-level manpower training and technical assistance to help countries improve the efficiency of their basic education systems are A.I.D.'s two priorities. Manpower training for administrators, managers, and scientific and professional personnel has grown substantially. The private sector requirement for a better trained work force is receiving increased attention. External training in U.S. universities is emphasized, although there is increasing support for short-term in-country training, training in third-country institutions, and strengthening of local training institutions. Support for basic education, which has declined in recent years, is again being emphasized.

The **Selected Development Activities Account** addresses cross-sectoral problems. Activities funded from this account play a particularly important role in the successful implementation of

A.I.D.'s efforts to promote the role of the private sector in development. The multiple objectives of programs provided under this Development Assistance account include the following:

- Increasing the involvement of U.S.-based and developing country-based private enterprise in Third World development
- Increasing employment and income-earning opportunities in developing countries by stimulating small- and medium-scale labor-intensive private enterprise
- Increasing the flow of resources to low-income people by working more closely with U.S. PVOs and cooperatives and building the capacity of indigenous PVOs and cooperatives to mount development programs
- Supporting developing country efforts to plan and carry out sound energy, natural resource, and environmental policies
- Improving the capacity of developing countries to provide basic services to the urban poor and displaced persons

In addition to programs funded under the Development Assistance accounts, about 30 percent of the Economic Support Fund (see following section) also is implemented in the functional areas discussed above. These funds represent an added resource for addressing the needs of the poor majority in developing countries. The balance of appropriations under the Economic Support Fund is used primarily to address the short-term economic stabilization needs of recipient countries. A.I.D. has substantially increased its participation in decisions on the use of local currencies generated by stabilization and structural adjustment programs financed under the Economic Support Fund. Table 6-4 presents allocations for FY 1985 and FY 1986 under the Development Assistance, Economic Support Fund, and PL 480 accounts.

6.1.2 Economic Support Fund

The Economic Support Fund is a flexible assistance tool for promoting economic or political stability in developing countries in which the United States has especially strong security and foreign policy interests. Although administered by A.I.D. and the Department of State in generally the same manner as Development Assistance, Economic Support Fund resources tend to be used most often to address shorter term problems of economic stability. They can be used to provide immediate balance of payments support by furnishing assistance through commodity import programs and by providing cash grants to finance general imports rather than specific projects. The Economic Support Fund, however, also is often used to finance infrastructure and other capital projects necessary for long-term economic development and to support smaller projects that more directly address the basic human needs of the poor.

The programming of the Economic Support Fund is prompted by political or security considerations, but, as required by

Table 6-4 Development Assistance, Economic Support Fund,
and PL 480 Program Obligations, FY 1985 and FY 1986

Budget Category/Account	Amount (\$ millions)		Percentage	
	FY 1985	FY 1986	FY 1985	FY 1986
Development Assistance				
Functional Accounts				
Agriculture, Rural Development and Nutrition	774.7	760.0	31.3	33.5
Population Planning	288.2	237.5	11.6	10.5
Health	252.3	213.3	10.2	9.4
Child Survival Fund	25.0	36.4	1.0	1.6
Education, Human Resources Development	186.6	181.9	7.5	8.0
Selected Development Activities (energy, PVOs, science & technology)	226.5	184.8	9.1	8.2
Subtotal Functional Accounts	1,753.3	1,613.9	70.7	71.2
Sahel Development Program	109.0	84.7	4.4	3.7
Subtotal Functional Accounts plus Sahel Program	1,862.3	1,698.6	75.1	74.9
Other ^a	616.0	568.7	24.9	25.1
Total Development Assistance	2,478.3	2,267.3	100.0	100.0

Development Assistance	2,478.3	2,267.3	25.0	25.5
Economic Support Fund	5,247.4	4,913.0	25.0	25.5
Total A.I.D.	7,725.7	7,180.3	78.1	80.7

PL 480, Titles I, II, III (Food for Peace)	2,167.8	1,717.5	21.9	19.3

Total Obligated Funds	9,893.5	8,897.8	100.0	100.0

^aAmerican Schools and Hospitals Abroad, Private Sector Revolving Fund,
International Disaster Assistance, Miscellaneous Prior Year Accounts,
Operating Expense, Foreign Service Retirement Fund.

Congress, funds are directed toward basic human needs and development goals to the maximum extent possible. Countries forced to direct large percentages of their domestic expenditures to security concerns often lack the resources to support vital economic development programs. Even balance of payments support can have a powerful, if indirect, effect on the welfare of the poor. Imports of raw materials, manufacturing and agricultural inputs, and other essential needs can help to sustain the level of economic activity and growth and the political stability on which much employment throughout these economies depends.

For FY 1986, \$4,913 million was obligated under the Economic Support Fund. The bulk of those funds was provided in the Middle East to support continuing efforts to further the peace process. This included a cash transfer of \$1,898 million to Israel to address inflation and balance of payments problems. It also included \$1,068 million in cash transfer and project and commodity assistance for Egypt. The purpose of this assistance was to encourage long-term development activities while also permitting the large-scale import programs necessary to maintain growth rates and to allow the Egyptian people to experience tangible benefits from the peace process.

Other important Economic Support Fund recipients in FY 1986 included Turkey (\$120 million), to assist its efforts to overcome serious economic problems; Pakistan (\$239 million), to bolster its stability and security in the face of the Soviet threat posed through Afghanistan; the nations of southern Africa (\$172 million), to facilitate the peaceful transition to majority rule; the Philippines (\$300 million); and several Latin American and Caribbean nations (in particular Jamaica, \$58 million; El Salvador, \$177 million; Honduras, \$61 million; and Costa Rica, \$121 million). Liberia also received \$28 million to help in overall development efforts. Many of the same themes are expected to continue in FY 1987, particularly the emphasis on Israel and Egypt, Turkey, several African and Latin American and Caribbean nations, Pakistan, and the Philippines.

6.2 OTHER U.S. BILATERAL ECONOMIC ASSISTANCE

6.2.1 Public Law 480 and Food Aid

Objectives

The PL 480 program is the principal U.S. food aid program. It provides over 60 percent of the food aid received by developing countries from all sources. PL 480 resources are used in both bilateral and multilateral programs. In 1986, famine assistance to Africa continued to dominate public awareness and discussion of food aid. U.S. food aid programs accounted for shipment to Africa of over 1.7 million tons of food valued at over \$541.8 million in FY 1986, the second year of generous response that demonstrated U.S. concern for the victims of this famine. While the humanitarian/relief aspects of the U.S. food aid program continue to be important, it is the potential for assisting in longer term eco-

conomic development that makes these programs a key element of U.S. bilateral economic assistance.

The major categories of U.S. food aid programs are designated by the relevant titles of the PL 480 legislation and section 416 of the Agricultural Act of 1949. These programs are described below.

PL 480 Title I provides long-term, low-interest loans to friendly developing countries for the purchase of U.S. agricultural commodities. These help relieve both chronic and temporary or unexpected food shortages while providing balance of payments support. A key feature is that recipient countries agree to undertake self-help measures to improve the efficiency of their agricultural production, marketing, and distribution or otherwise correct the conditions that created a need for aid.

PL 480 Title II provides for the donation of food commodities for humanitarian and development uses. U.S. PVOs receive many of these commodities for the feeding programs they administer. The programs are directed toward malnourished children or other nutritionally vulnerable groups. PVOs also administer small-scale food-for-work development programs and a variety of food emergency and refugee relief programs. Grant food under this title is also distributed through host government programs in some countries and by international organizations for regular feeding and development programs as well as emergency programs. The major multilateral program supported by Title II resources is the World Food Program (WFP), established with U.S. encouragement by the members of the United Nations and the Food and Agriculture Organization in 1972.

In FY 1986, eight countries--including Bolivia, Ecuador, Haiti, Sudan, Liberia, and Zaire--reported having allocated PL 480 resources to support immunization activities. Immunization projects supported by PL 480 resources are planned to reach more than 7 million children. Information on the number of children actually completing their full immunization series will be available later in 1987.

PL 480 Title III provides for multiyear commitments of food aid and forgiveness of the debt incurred through Title I-financed purchases when the resource transfer involved is demonstrably applied to implementation of a development program specified in detail in a Title III agreement.

Section 416 of the Agricultural Act of 1949. The Food Security Act of 1985 revamped subsection (b) of section 416 to authorize the Secretary of Agriculture to furnish eligible commodities for carrying out programs of assistance in developing countries through (1) Title II of PL 480, (2) the Food for Progress Act of 1985, and (3) other activities as approved by the Secretary of Agriculture. According to the legislation, eligible commodities means (1) dairy products, grains, and oilseeds acquired by the U.S. Department of Agriculture (USDA) through price support operations and (2) other edible agricultural commodities acquired by the USDA in the normal course of operations and that are available for disposition under section 416.

Background and Evaluation of Food Aid

PL 480 was enacted in 1954 in response to growing public concern over increasing U.S. agricultural surpluses in a world in which many countries had substantial food deficits. In the early 1960s, PL 480-financed shipments constituted over 23 percent of the value of total U.S. agricultural exports. The numerical importance of PL 480 as a share of U.S. exports has declined sharply as major food aid recipients have become commercial customers for U.S. exports. This is in line with the market development objective of the program. In general, commodities are not available for shipment under PL 480 if the shipment would reduce U.S. stocks below the level needed for domestic use, appropriate carryover stocks, and anticipated commercial exports.

Because U.S. food aid is development aid and administered as such, it has been an important factor affecting the shift in status of developing countries from recipients of food aid to commercial purchasers of U.S. exports. Legislative revisions in 1966 unambiguously directed that food aid be used as a tool for improving recipients' agricultural productivity and economic performance. The result has been considerable growth in U.S. commercial exports because recipients' demands for food increase faster than their food output as their productivity and incomes improve. At the same time, the composition of their food requirements also changes. Thus, because of food aid's contribution to development, U.S. exports change from an aid-financed to a commercial basis, and recipients achieve a more mature, self-reliant relationship with donors.

Food Aid's Contribution to Economic Development Through Policy Reform

A.I.D. continues to use food aid in consort with other forms of economic assistance to affect economic development by creating the policy environment necessary for achieving progress. Food aid can be used to (1) provide a secure supply of food to a country undertaking difficult policy reform, (2) provide food directly to vulnerable groups experiencing short-term difficulty in maintaining a satisfactory level of nutrition as the national government adopts structural reform measures, (3) supplement dollar-funded health and nutrition projects implemented by USAID Missions overseas, (4) undertake food-for-work programs that alleviate underemployment and unemployment and assist infrastructure development and maintenance, and (5) generate local currency that can be used to enhance the effectiveness of the food aid.

PL 480 Title I concessional sales programs continue to provide the bulk of U.S. food aid. In FY 1986 agreements were signed in 33 countries to provide 5.7 million metric tons of commodities valued at \$872.3 million. These agreements contain specific development objectives that the importing country agrees to implement.

Under PL 480 Title II in FY 1986, 1.4 million metric tons were provided for regular and emergency PVO and bilateral programs. Shipments in support of the WFP's 1985-1986 target totaled 424,100 metric tons in commodities and \$40.1 million for transpor-

tation costs. U.S. Government emergency contributions to the WFP provided an additional 319,000 metric tons valued at over \$57 million. Under section 416 availabilities, (1) 124,468 metric tons of commodities valued at \$109.5 million were provided to programs approved for regular and emergency activities; (2) over 59,000 metric tons valued at \$16.1 million were channeled through the WFP pledge; (3) 18,000 metric tons valued at \$4.8 million were authorized for Food for Progress shipments; and (4) 91,214 metric tons valued at \$16 million were authorized for shipment under sugar quota compensation programs.

Global economic conditions are making the grant form of food aid more important as a development resource. A.I.D. is implementing grant food aid programs, both bilaterally and in support of U.S. PVOs, that do more than simply provide direct feeding on a continued basis, which can create dependency. Continued direct distribution of food to vulnerable groups is important, but it must be done in ways that help the recipients achieve self-sufficiency. Bilateral grant programs such as PL 480, section 206, and the new Food for Progress program can leverage important policy reform while providing local currency resources for important development purposes.

Legislation governing U.S. food aid under PL 480 continues to emphasize the multiple objectives of food aid: humanitarian, developmental, market development, and economic support for political objectives. A.I.D. considers these objectives while maintaining development as the primary objective. Program implementation requirements include the following:

- At least 75 percent of food aid provided under Title I shall be allocated initially to countries whose per capita income is at or below the eligibility level of the International Development Association (\$790 in 1986).
- Ten percent of the amount available for Title I programs shall be conducted under authority of Title III.
- A minimum of 1.9 million metric tons of agricultural commodities shall be provided under Title II in FY 1987 and beyond, of which not less than 1.425 million metric tons shall be for regular programs of voluntary organizations and the WFP.
- Adequate storage must be available in recipient countries, and the distribution of PL 480 commodities must not result in a substantial disincentive to or interference with domestic production or marketing.
- At least 75 percent of the nonemergency minimum Title II commodity level shall be processed, fortified, or bagged.

6.2.2 Board For International Food and Agricultural Development

The 25th anniversary of A.I.D. is the 10th anniversary of Title XII and the Board for International Food and Agricultural Development (BIFAD). The basic purpose of the 10-year-old Title

XII amendment to the Foreign Assistance Act of 1961 is to marshal the unique resources of U.S. agricultural universities in support of U.S. agricultural development assistance programs. The continuing and growing interest in using these resources is manifested by the more than 100 A.I.D.-funded projects that Title XII institutions are helping to implement in developing countries.

Beginning with pre-World War II social and technical assistance to Latin American countries, foreign aid as a national policy has been implemented with the assistance of U.S. universities. Programs in agriculture, nutrition, and rural development always have been critical elements of development assistance and of U.S. efforts to broaden economic opportunity and improve the quality of life of people in developing countries. Consequently, the considerable resources of U.S. land grant universities have been drawn on over the years to provide research, teaching, extension, and other technical assistance services. The Title XII amendment has increased the involvement of those U.S. institutions.

Objectives

The language of Title XII makes clear the intention to involve the U.S. land grant and other eligible universities in the planning, development, implementation, and administration of each component of the U.S. Government's international efforts to more effectively apply agricultural sciences to achieve the goal of increased world food production. This is to be done by providing increased and longer term support to the application of science to solving food and nutrition problems of developing countries. The principal components of the legislation call for strengthening the capabilities of U.S. universities, building and strengthening institutional capacity and human resource skills in developing countries, supporting long-term collaborative research by U.S. and developing country institutions on projects of benefit to developing countries and U.S. agriculture, and collaborating with international agricultural research centers.

Leading the implementation of this legislation is BIFAD. Congress created BIFAD to help A.I.D. mobilize and use the resources of Title XII institutions and to participate with the A.I.D. Administrator in planning, developing, implementing, and monitoring the activities described above. The result has been the development of a Title XII partnership, an evolving and dynamic relationship between the universities and A.I.D.

Second-Decade Agenda

Challenge and change characterize BIFAD as it enters its second decade. According to BIFAD chairman, William E. Lavery, BIFAD is challenged both by the record of its proud accomplishments during its first decade and by the tasks that remain. BIFAD adjusts its approaches and efforts not only to changing world conditions but also according to lessons learned from experience and the availability of new knowledge. In its second decade, BIFAD has three important roles to fill in meeting both challenge and change: a catalyst for new initiatives, a forum for new ideas, and a communicator of new information.

To fulfill these roles, BIFAD has targeted the following six areas in its second decade:

- Increasing agricultural expertise in developing countries
- Using U.S. agricultural professionals effectively
- Expanding collaboration among and between universities and other institutions
- Improving contractor selection processes
- Improving project implementation performance
- Increasing public understanding of agricultural development assistance

Within this context, BIFAD is emphasizing the following:

- Development of indigenous institutions for sustainable progress
- Reduction of poverty through development of human, technical, and natural resources
- Tapping the special and proven capabilities that U.S. universities offer for programs of education, technology generation, and outreach in food and agriculture

Current Activities

The current A.I.D. program emphasizes four aspects of the development process: institution building, technology transfer, private sector development, and policy dialogue and reform. A.I.D. strives to meet the demands of the present while also addressing longer term problems that impede progress. Thus, high priority has been given to helping recipient countries develop and strengthen their programs and institutions in agricultural research, extension, and teaching, including the training of administrative, scientific, and other personnel.

BIFAD believes that successful agricultural development in developing countries requires strengthening and building institutions to educate and train agricultural personnel, developing improved and relevant agricultural technology, and disseminating and implementing this technology. These three objectives are basic to improving the agricultural economies of developing countries and addressing problems of hunger and poverty. In carrying out these objectives, BIFAD is concerned not only with public policies but also with the role of the private sector.

A standing committee of BIFAD, the Joint Committee on Agricultural Research and Development, assists BIFAD and A.I.D. in identifying and addressing emerging issues and convening needed panels and task forces. The Joint Committee comprises university and A.I.D. officers and other representatives from the public and private sectors. Along with the BIFAD staff, the Joint Committee attends to and monitors ongoing Title XII activities.

Programming Mechanisms

Title XII institutions are involved as individual institutions; through consortia, with one of the institutions designated as the "lead institution"; and through collaboration with private firms. Title XII university faculty and staff also provide expertise directly to USAID field Missions, consulting firms, and private or nonprofit agencies. Fish culture, farming systems, research, irrigation management, resource conservation, range management, livestock development, agricultural extension, rural savings, vocational training, agricultural sector planning, and agricultural research and development are some of the subject matter areas.

Seven Collaborative Research Support Programs (CRSPs) involve 36 U.S. and 63 developing country universities and institutions in 30 countries, collaborating on more than 150 research projects on small ruminants, sorghum and millet, beans and cowpeas, peanuts, tropical soils management, pond dynamics (aquaculture), and stock assessment of fish populations. An eighth program, on nutrition, was concluded in 1986.

In addition to the foregoing, there are several other mechanisms through which Title XII institutions participate in A.I.D. programming:

- **Basic Ordering Agreements** provide USAID field Missions ready access to short-term technical expertise from the Title XII resource pool.
- **The Joint Enterprise Contracting Mode** encourages smaller universities to pool their resources with those of larger institutions in order to undertake larger projects.
- **The Collaborative Assistance Mode** of contracting permits early involvement of a university at the conceptual and design phases of project and program development, as well as participation in the later implementation phases.
- **Memoranda of Understanding** have been executed by A.I.D. with 29 Title XII universities to help reinforce the universities' development assistance programs. Currently, A.I.D. has individual memoranda of understanding with five universities and joint memoranda with each of 12 pairs of universities. Program Support Grants may be awarded annually to facilitate carrying out the intent of the memoranda of understanding.
- **Matching Support Grants**, which are awarded to qualifying institutions on a competitive basis, provide joint support from A.I.D. and the universities to strengthen and enhance specifically identified activities in the universities' development programs that are related to the utility and performance of the universities as A.I.D. contractors.
- **The Joint Career Corps** makes possible periodic exchanges of staff members between universities and A.I.D. for

mutual professional and programmatic enrichment in the development assistance field.

Other Activities

BIFAD sponsors regional seminars annually in different locations in the United States to help the university community keep abreast of Title XII programs and opportunities. From time to time, BIFAD also sponsors workshops and other seminars and meetings.

BIFAD publishes a bimonthly newsletter that serves as a clearinghouse for information on Title XII and related activities. A wide range of subjects related to Title XII programs is presented in BIFAD's Occasional Paper Series. Other publications include staff and special reports, studies, and analyses.

BIFAD is committed to strengthening the effectiveness of the ongoing Title XII partnership with A.I.D. and to meeting the challenge of building a world free from hunger.

6.3 OVERSEAS PRIVATE INVESTMENT CORPORATION

6.3.1 Introduction

The Overseas Private Investment Corporation (OPIC) is a self-sustaining U.S. Government development agency created to mobilize and facilitate the participation of U.S. private enterprise in the development process. OPIC programs complement U.S. foreign assistance efforts and result in the transfer of much needed capital, technology, and managerial skills while contributing to economic growth, employment, and private sector development in developing countries. These developmental benefits are not accomplished at the expense of U.S. economic interests, however. OPIC ensures that the financial returns from OPIC-assisted foreign investment and related U.S. exports have a positive net effect on the U.S. economy and employment.

6.3.2 Foreign Investment

Since the end of World War II, the U.S. Government has held that stimulation of flows of U.S. private foreign direct investment abroad for the purposes of enhancing international economic growth is in the public interest. In the immediate postwar period, insurance against the risks of currency inconvertibility was offered as an inducement to private investment to aid in the rebuilding of Western Europe. During the 1950s, coverage was broadened to include other forms of political-risk insurance and was extended to the less developed countries. The program was administered by A.I.D. until 1969, when Congress established OPIC.

Thus, encouraging U.S. private investment in developing countries has long been an important part of the U.S. Government's overall development assistance program. More recently, a consensus has emerged in the international community that both local and

foreign private investment should take on a greater role in the development process, given the debt situation and inadequate levels of both concessional assistance and commercial bank lending to developing countries.

Recognizing this, the Reagan Administration has sought to create a more conducive climate for investment worldwide through its vigorous support for private enterprise development as an integral part of its foreign assistance program. This support includes the pursuit of efforts aimed at discouraging government policies that inhibit or distort international investment flows. In this regard, the Administration has decided to make policy reform a principal OPIC mandate and will request legislation to that effect during the 1989 OPIC reauthorization process.

At the same time, many developing countries have adopted policy reforms that have increased the role of the private sector in general while liberalizing investment policies. Such policies should facilitate the natural synergism between foreign and domestic investment, enabling each to enhance the developmental effects of the other. (See Section 4.4 for further discussion of private direct investment.)

6.3.3 OPIC Programs

To fulfill its mandate of facilitating U.S. investment overseas, OPIC operates several major programs: political-risk insurance, financial services, and special investment encouragement activities.

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 the perceived levels of political and economic instability in developing nations, many U.S. investors are reluctant to take advantage of promising opportunities in these countries. By providing insurance against inconvertibility of currencies, loss due to expropriation, and damage caused by political violence (war, revolution or insurrection, and civil strife), OPIC reduces the probability of catastrophic loss. The availability of such insurance can be a prerequisite to overseas investments by U.S. firms.

For several years, OPIC has insured several forms of investment in addition to direct equity investment. OPIC's program for letter-of-credit guarantee insurance protects U.S. contractors and exporters against the risk of arbitrary drawdowns of letters of credit they may be required to post as bid, performance, or advance payment bonds. OPIC also offers specialized insurance and financial services for the exploration, development, and production stages of energy and mining projects as part of an effort to meet world demand for natural resources while generating income for developing countries. OPIC also insures and finances long-term cross-border operating and capital leases to encourage developmentally beneficial transfers of U.S. technology and capital equipment.

Financial Services

OPIC also provides direct loans and loan guarantees that complement commercial sources of long-term financing, thereby removing one of the major constraints to U.S. investment in the developing world. For example, U.S. banks may be reluctant to provide loans for projects in developing countries because of unfamiliarity with lending for overseas investments, the prohibitive costs of negotiating loans abroad in the absence of branch offices in the host country, or limits on the total amount that can be loaned in one country. Also, U.S. banks are often unwilling or unable to accept certain political risks. Thus, U.S. investors, particularly small investors or those with little previous foreign investment experience, may find it difficult to obtain commercial financing for investments overseas.

In such situations, OPIC makes financing available to U.S. investors who otherwise would be unable to invest in developing countries. Furthermore, because these loans generally provide medium- to long-term financing, they often encourage investors to structure their projects to be more developmentally beneficial to the host country. In FY 1986, OPIC's direct loan and loan guarantee authorities were \$13.64 million and \$136.4 million, respectively. Recognizing the expanding interest among developing countries in attracting foreign investment, these levels have been increased to \$23 million and \$200 million for FY 1987.

Investment Encouragement Activities

OPIC services that encourage wider participation in overseas investment by smaller U.S. businesses include investment missions, which bring U.S. investors in touch with local government officials and potential joint venture partners; a computerized data bank, which can match an investor's interest with possible joint venture partners and specific overseas investment opportunities; and an investor information service that provides investors with a wide range of information about foreign countries and their business environment. Further, OPIC has programs for medium-term debt financing for the establishment or expansion of distributorships overseas.

6.3.4 Highlights of FY 1986

In FY 1986, OPIC insured or financed 124 projects in 38 countries around the world. On a regional basis, the largest share of the portfolio was in Latin America and the Caribbean (46 projects). Twenty-seven projects were supported in East Asia, 20 in South Asia, 19 in the Middle East/North Africa, 7 in Europe, and 5 in Sub-Saharan Africa. In all, these projects involved a total U.S. investment of \$722 million and a total project investment of \$1.2 billion.

OPIC makes special efforts to promote investments in the poorest developing countries and those involving U.S. small businesses. As a result, 61 (or 49 percent) of the projects assisted in FY 1986 were in countries with per capita incomes of \$896 or less (in 1983 U.S. dollars), and 56 (or 45 percent) involved small

U.S. companies or cooperatives. In addition, OPIC conducted investment missions to Belize, Ecuador, Cameroon, Guinea, Zaire, and Malaysia in which about 75 percent of the 38 participating firms were small businesses. Through these missions, specific investment opportunities were identified and considered by prospective U.S. investors.

OPIC continued its support of the Caribbean Basin Initiative in FY 1986. Of all OPIC-assisted projects, 35 (or 28 percent) were located in the Caribbean Basin, and 27 of these (77 percent) were sponsored by small businesses. Total investment in all Caribbean projects was \$327 million, of which U.S. investors supplied \$281 million.

Overall, OPIC's support of U.S. investment overseas in FY 1986 was down from its record-breaking performance of 157 projects in FY 1985. The two key factors accounting for this reduced level were OPIC's inability to operate its programs for the first quarter of 1986 because of delays in its legislative reauthorization and, reflecting the drop in the price of oil, a dramatic decline in OPIC assistance for oil and gas exploration and development projects.

6.3.5 Effects on Developing Countries

When determining whether to assist an investment, OPIC is required to consider the economic and social development impact and benefits of the project. Therefore, OPIC selectively supports only investments that are beneficial to host countries. Applying this criterion, the FY 1986 projects insured or financed by OPIC are expected to employ by the fifth year of operation a total of 19,936 people, 2,558 of whom will be in managerial or professional positions. About \$500 million of the original investment will be spent locally for goods and services, and an additional \$23 million will be spent in other developing countries. Once in operation, these projects are expected to generate annually an estimated \$189 million in net foreign exchange earnings and \$97 million in taxes and duties.

Examples of OPIC-supported projects include the following:

- A \$6.95 million OPIC loan guarantee to Land O'Lakes, a U.S. cooperative, to establish a fully integrated dairy cattle project in Indonesia that will import 5,000 Holsteins from the United States. About 60 percent of the heifers will be sold to an estimated 1,000 small farmers who will be provided with long-term credit, extension services, animal feed, and an agreement to buy the milk produced. The project is expected to double the farmers' income and help meet the nutritional needs of Indonesia's expanding population.
- Based on the findings of an OPIC-financed feasibility study, OPIC approved a \$150,000 loan and \$15,000 in training assistance funds for the start-up of Kyndyl (Malawi) Ltd. The project involves a U.S. small business investment in Malawi to manufacture and market inexpensive, fuel-efficient stoves. If widely adopted for daily

household use, Kyndyl's stove promises to lower domestic consumption of fuelwood, thereby helping to retard the severe deforestation of Malawi's limited forest resources.

- The availability of OPIC's Small Contractors Guaranty Program enabled Evergreen International Aviation, Inc., a U.S. small business, to bid successfully for a 3-year, \$4 million World Health Organization contract to help eradicate onchocerciasis (river blindness) in West Africa. The project will make it possible for Africans to once again inhabit and cultivate the fertile river lands that had been abandoned because of the debilitating disease.

6.3.6 Effects on the U.S. Economy

OPIC-supported projects also provide significant U.S. employment and balance of payments benefits. During their first 5 years of operation, projects assisted by OPIC in FY 1986 are expected to generate 6,243 person-years of employment for U.S. workers and approximately \$1 billion in U.S. exports for initial and ongoing procurement of materials and equipment.

6.3.7 Conclusion

The capital, skills, and business expertise of the U.S. private sector can contribute significantly to the economic growth and private sector development of the Third World. OPIC looks forward to continuing to provide a broad array of services to selected U.S. investors to encourage U.S. private direct investment abroad, thereby furthering the development process.

6.4 PEACE CORPS

6.4.1 Twenty-Five Years of Peace Corps

The Peace Corps celebrated its 25th anniversary during 1986. For the last 25 years, the Agency has been helping countries in the developing world meet their needs for skilled manpower and promoting world peace and friendship between the American people and peoples of the developing world. Building on 25 years of experience and the cumulative efforts of 120,000 Volunteers, the Peace Corps has continued to provide person-to-person assistance to some of the poorest peoples in the developing world. Peace Corps Volunteers usually serve in rural areas where they strive to increase the capabilities of the host country's poorer citizens to improve their quality of life.

6.4.2 A Brief History of the Peace Corps

In his inaugural address in January 1961, President Kennedy articulated what was to become the Peace Corps philosophy: "To those peoples in the huts and villages of half the globe struggling to break the bonds of mass misery, we pledge our best

efforts to help them help themselves." The Peace Corps was established as an independent agency by Executive Order of the President on March 1, 1961 and formally authorized by Congress when it approved the Peace Corps Act on September 22, 1961. This act stated that the Peace Corps should work toward the following goals:

- Helping the people of interested countries and areas meet their needs for trained manpower
- Helping promote a better understanding of Americans among the peoples served
- Helping promote a better understanding of other peoples among Americans

These goals have guided the Peace Corps in its development efforts throughout the course of its existence.

Sargent Shriver became the first Director of the Peace Corps in March 1961; 6 months later, 51 Volunteers departed for service in a secondary school program in Ghana. They were soon followed by some 700 Volunteers who took assignments in Chile, Colombia, Nigeria, Pakistan, Philippines, St. Lucia, and Tanzania. During the 1960s, the Peace Corps grew rapidly: from 2,000 Volunteers and trainees in 1961 to 15,556 in 1965, the largest number in one year to date. Over the last 25 years, Peace Corps Volunteers have served in 92 countries; Volunteers are currently serving in 63 countries around the world.

Over the years, Volunteers have served in numerous capacities to host countries. However, the largest percentage of those selected for service during the 1960s had a background in liberal arts; the next largest group, in education. Those with backgrounds in professional skills (engineering, health, or social work) or agricultural and skilled trades constituted only about a quarter of all those in service. During the last 25 years, most of the 120,000 Volunteers have worked in education programs (55 percent); another 25 percent were engaged in community development activities; the remaining 20 percent participated in a wide range of professional programs. About half of the Volunteers served in rural villages, the remainder in towns and cities.

In 1969, in order to meet the changing needs of the developing nations being served, the Peace Corps adopted a "New Directions" policy designed to encourage more highly skilled Americans to volunteer. Throughout the 1970s, the percentage of Peace Corps Volunteers with a liberal arts background steadily declined. The Peace Corps, in an effort to provide more professional services, had refocused its recruitment efforts to increase the number of new Volunteers with backgrounds in agriculture, forestry, business, and other technical areas. At the same time this shift was taking place, the number of Volunteers was declining from a high of 15,556 in 1965, to 9,513 in 1970, 7,015 in 1975, and 5,994 in 1980. During the last 6 years, the number of Volunteers has remained relatively constant at between 5,000 and 6,000.

When the Peace Corps legislation was renewed in 1978, it contained a new mandate to focus Peace Corps programs on meeting "the

basic human needs of those living in the poorest areas of developing countries." However, this did not require a shift away from the Agency's policy of recruiting Volunteers with much-needed professional skills for working in the Third World. The law was also amended to highlight the importance of women in development, providing an impetus for incorporating a women-in-development perspective in identifying needs and strategies for meeting these needs.

In the last few years, greater emphasis has been given to private sector development. Today the Peace Corps has no singular focus but rather stresses its historic, broadly based, grass-roots approach to development. In the early 1980s, Presidential and Congressional support for the Peace Corps and its Volunteers increased, and in 1981, the Peace Corps regained its independent status as a Federal agency.

The Peace Corps continues to be a strong influence in the international development arena. As Volunteers complete their service and return to the United States, their knowledge and experiences about and in the Third World become a powerful force for increasing our nation's understanding of the development issues facing other countries. Moreover, thousands of Volunteers continue to serve in government, many in elective office. Others have remained involved in development assistance through employment in private firms or in other volunteer organizations. Perhaps most important, Peace Corps Volunteers continue to present a positive image of Americans to much of the developing world while providing Americans at home with a personal view of the contributions being made by their country to assist the Third World.

6.4.3 Peace Corps in 1986

The Peace Corps in 1986 is continuing a tradition of service to some of the most impoverished nations of the world. At the mid-point of its third decade, 5,913 Volunteers are serving in 63 countries. The present distribution of Volunteers by region is as follows:

Africa	24 Countries	2,585 Volunteers
Inter-America	19 Countries	1,798 Volunteers
North Africa, Near East Asia and Pacific	20 Countries	1,530 Volunteers

The Peace Corps budget for 1986 was \$124.4 million. In addition, host countries continued to show their appreciation for the work of the Volunteers by making substantial cash and in-kind contributions to in-country operations. The single greatest area of expenditure continued to be the direct support and training of Volunteers overseas. The costs incurred in recruiting Volunteers and providing them with overseas staff support constituted the two other major expenditures. Over half of all Peace Corps staff were stationed overseas; two-thirds of these were host country nationals.

Trained Peace Corps Volunteers continue working to reduce hunger and malnutrition, infant mortality, illiteracy and limited educational opportunities, inadequate health care, inadequate food

production, and the degradation of natural resources. The average age of Volunteers in 1986 was 30; 9 percent of all Volunteers were over the age of 50. The distribution between men and women was almost even, with women constituting 49 percent of Volunteers. During 1986, 2,668 trainees entered on duty with the Peace Corps.

In addition to its regular programs, the Peace Corps continued to support special initiatives targeting certain regions of the world with extra resources and incentives to promote development. During 1986, three of these initiatives were in operation: the Caribbean Basin Initiative; the Initiative for Central America; and the Agency's most recent, the Africa Food Systems Initiative. This last initiative establishes a new approach in planning and programming for the Peace Corps. The Africa Food Systems Initiative is a 10-year program aimed at improving food production in certain regions in selected African nations. Not only does this initiative look beyond the usual 1- to 2-year cycle of most Peace Corps projects, but at each project site, a team of Volunteers will be employed to apply their varied and diverse skills to improve local food production.

6.4.4 Peace Corps Programming

In 1986, 5,913 Peace Corps Volunteers were assigned in the following program sectors according to their skills:

Professions	31%	(1,849)	Agriculture	15%	(875)
Education	28%	(1,637)	Skilled Trades	4%	(233)
Other/Liberal Arts	22%	(1,319)			

The following 63 countries hosted Peace Corps Volunteers in 1986:

- **Africa Region:** Benin, Botswana, Burkina Faso, Burundi, Cameroon, Central African Republic, Equatorial Guinea, Gabon, The Gambia, Ghana, Kenya, Lesotho, Liberia, Malawi, Mali, Mauritania, Niger, Rwanda, Senegal, Sierra Leone, Swaziland, Tanzania, Togo, and Zaire
- **Inter-America Region:** Anguilla, Antigua and Barbuda, Barbados, Belize, Costa Rica, Dominica, Dominican Republic, Ecuador, Grenada, Guatemala, Haiti, Honduras, Jamaica, Montserrat, Paraguay, St. Christopher/Nevis, St. Lucia, St. Vincent/Grenadines, and the Turks and Caicos Islands
- **North Africa, Near East, Asia, and Pacific:** Cook Islands, Fiji, Kiribati, Marshall Islands, Micronesia, Morocco, Nepal, Palau, Papua New Guinea, Philippines, Seychelles, Solomon Islands, Sri Lanka, Sudan, Thailand, Tonga, Tunisia, Tuvalu, Western Samoa, and the Yemen Arab Republic

The regional activities described below are among those in which the Peace Corps played a significant role during FY 1986.

Africa Region. In 1986, 2,585 Peace Corps Volunteers served in Africa. Peace Corps Volunteers worked to expand small business and to promote economic development and self-sustaining productive capacity (particularly in food production and energy). The Africa Food Systems Initiative moved from the design to the implementation stage by the end of the year.

- **Africa Food Systems Initiative.** Near the end of FY 1984, the Peace Corps initiated a major new long-term integrated agriculture program targeted at up to 12 African countries. Because of the urgency of the African food shortage, project development was moved from FY 1986 to FY 1985, and assessment teams were sent to Mali, Niger, Zaire, and Lesotho. The first Volunteers are being placed at their project sites in Mali, and trainees are now arriving in Niger. Four additional countries will be visited by assessment/design teams during 1987.

Inter-America Region. During 1986, 1,798 Peace Corps Volunteers served in Inter-America. Volunteers worked to increase programming in small business and self-help housing. Nearly one-half of the Volunteers were involved in the planning, establishment, and technical support of income-generating projects. Volunteers were also involved with food production, education, and reforestation in rural areas, where the majority of the population is concentrated. Two major Inter-American activities played a significant role in Peace Corps development strategies for Inter-America in 1985:

- **Caribbean Basin Initiative** continued to be directed toward small- and medium-scale agribusiness development throughout the Caribbean Basin. Most Volunteers are involved with planning and providing technical support for projects that are capable of being self-supporting.
- **Initiative for Central America** represents the Agency's effort to support socioeconomic development in Central America, especially in programs emphasizing education. Volunteer activities centered on literacy, teacher training, self-help rural housing, health and nutrition, and small-enterprise development.

North Africa, Near East, Asia, and Pacific Region. Throughout 1986, 1,530 Peace Corps Volunteers served in this region. These Volunteers worked in projects that expanded agricultural production on marginal lands, provided increased health services and potable water to rural areas, and raised literacy rates throughout the region.

United Nations Volunteers. The Peace Corps continued to support the United Nations Volunteers program by fielding 19 Americans for U.N. Volunteer positions. The Peace Corps also contributed \$100,000 to the U.N. Volunteer Special Voluntary Fund, which is used to help pay costs for Third World nationals serving as U.N. Volunteers.

6.4.5 Peace Corps Collaborative Efforts

The Peace Corps maintained its policy of collaboration with other programs serving the developing world. These collaborative efforts help to avoid duplication by different organizations and to achieve cost savings. The guiding rationale for collaboration in development is that mutual benefits be derived by each party and its beneficiaries. Accordingly, the Agency continually reviews and revises these collaborative activities with other Federal, international, host country, and private voluntary organizations (PVOs). A 1985 report on worldwide PVO/A.I.D. collaboration with the Peace Corps identified over 250 organizations that are collaborating with Peace Corps Volunteers somewhere in the world. Programs addressing forestry and natural resources, fisheries, health, and nutrition received the greatest monetary support from PVOs and other organizations. Volunteer projects in agriculture, forestry and natural resources, and water and sanitation received the most financial assistance from A.I.D.

Collaboration With Private Voluntary Organizations

The Peace Corps continued its efforts to expand its relationships with PVOs in 1986. These activities included both the broadening of existing relationships and efforts to develop new collaborative arrangements with other PVOs.

Collaboration With the Agency for International Development

Cooperation between the Peace Corps and A.I.D. continues to expand, both in the field and at the interagency level. For the Peace Corps, this has meant a significant increase in its ability to target specific programs by fielding greater numbers of Volunteers and providing Volunteers with increased levels of technical support. The following Participating Agency Service Agreements with A.I.D. were in effect during FY 1986:

- **Forestry.** A joint A.I.D./Peace Corps Forestry Resource Management Initiative was established in 1980 and amended in 1985 to carry through to 1990. This initiative is delivering forestry assistance to villages while assessing opportunities for collaboration under the Food for Work/PL 480 Initiative.
- **Combatting Childhood Communicable Diseases.** This program is a cooperative effort among African countries, the World Health Organization, the Centers for Disease Control, A.I.D., the Peace Corps, and other donors to address the high infant and child mortality and morbidity in Africa.
- **Child Survival.** At the end of the 1986, the Peace Corps and A.I.D. signed a new 3-year agreement on child survival programs. This arrangement will support the programming and training of Peace Corps Volunteers and counterpart staff for participation in child survival activities worldwide. Additionally, earlier agreements

with A.I.D. in the areas of oral rehydration therapy and nutrition will now be administered under child survival programs. Under these programs, Volunteers have been directly involved in reducing levels of infant mortality and providing training in vegetable gardening.

- **Small Project Assistance Program.** Jointly established by the Peace Corps and A.I.D., this program has been in operation for almost 4 years. The program funds small development projects identified by Volunteers working with local community organizations in 35 countries. It has a total annual budget of \$2 million. Over 1,200 projects have been funded at an average cost of \$3,000. In order to promote improved project design and implementation, several project management workshops were conducted by the program coordinator in the Peace Corps. Most projects funded have been concerned with improving food production, energy, small enterprise development, and health. Discussions have been concluded between the Peace Corps and A.I.D., enabling education projects to be eligible for funding by the second quarter of 1987.

As the Peace Corps enters its next quarter century, it will continue to be both a provider and developer of human resources. To document its efforts, the Agency's Office of Information Collection and Exchange publishes a series of technical instruction manuals based on the work of its Volunteers. These manuals are available to Volunteers, host country counterparts, and other interested parties working in aspects of development in the Third World, particularly at the grass-roots level.

6.5 THE TRADE AND DEVELOPMENT PROGRAM

Since its creation in 1980, the Trade and Development Program (TDP) has actively pursued its mandate to provide development assistance through promotion of international trade. As an autonomous agency under the International Development Cooperation Agency, TDP provides funds for project feasibility studies on the basis of a project's export potential for U.S. goods and services and the development impact it will have in the host country.

The underlying principle validating TDP's double mandate is that if U.S. engineers and other consulting groups are involved at the planning stage, the project's promoters are likely to seek U.S. technology and equipment during implementation. Thus, developing countries are given access to advanced planning techniques and U.S. firms obtain an edge in the stiff competition to assist developing countries in furthering their infrastructure, industrialization, and agricultural development plans. The TDP Public Sector Planning grant is the standard mechanism for providing this assistance.

The TDP is directed principally at middle-income developing countries that can finance their own development with domestic resources or international financing. TDP therefore complements the efforts of U.S. bilateral development assistance programs that, primarily through A.I.D., focus on the poorer developing countries. The program is especially useful in opening new busi-

ness channels between the United States and middle-income countries that no longer receive A.I.D. assistance.

A second TDP-sponsored program provides U.S. investors with grant funds to conduct comprehensive feasibility studies to direct decision-making and design elements for their potential investments in Third World countries. These grants constitute risk capital to encourage private investment in developing countries. The investor project feasibility studies are funded on a reimbursable basis: TDP's 50-percent contribution is repaid upon investment. Again, the development impact of a project and its potential for generating a substantial level of U.S. exports are the principal criteria for evaluating proposals. For FY 1986, these reimbursable grants represent 22 percent of TDP's 94 projects. Examples of these projects include a winter vegetables project in the Dominican Republic, a furniture factory in Micronesia, and the development of photovoltaic capability in Turkey.

TDP evaluations demonstrate that the \$75 million in TDP-financed feasibility studies have led to approximately \$605 million in exports from the United States to the developing world. The prospects for additional U.S. exports are very strong because the development and implementation period for these projects extends over the next 20 years. Estimates indicate that future exports for projects already financed could be as high as \$6.3 billion over the next 5 years, with an additional \$5.9 billion anticipated over the next 5-20 years.

TDP has grown from a \$4-million program in 1981 to a high point of \$21.5 million in FY 1987. Since its inception, TDP has provided feasibility funding for over 400 projects in 74 different countries.

TDP's efforts in support of U.S. private sector interests in China have been particularly impressive. Since establishing its program in China in 1980, TDP has agreed to fund feasibility studies for 37 major Chinese development projects at a cost of approximately \$15 million. These projects, which range from airports to toxic waste disposal, offer the potential for U.S. exports valued at more than \$1 billion.

TDP is also managing a \$500,000 fund established to attract U.S. investors to the Dominican Republic's agriculture sector by providing resources for feasibility studies.

6.6 U.S. PROGRAMS IN SUPPORT OF REGIONAL DEVELOPMENT FOUNDATIONS

6.6.1 Inter-American Foundation

The Inter-American Foundation (IAF) is a public corporation created by Congress in 1969 to support the self-help efforts of the poor in Latin America and the Caribbean. Unlike larger bilateral foreign aid programs, the IAF works primarily with private organizations rather than governments to promote the ideas and involvement of Latin America's poor in their own development at the grass-roots level. The IAF is funded by Congressional appro-

priations and the Social Progress Trust Fund administered by the Inter-American Development Bank.

The IAF carries out its legislative mandate through the following activities:

- Assisting the 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 groups that are usually denied a voice in development decisions and are largely excluded from the benefits of programs
- Encouraging the emergence and growth of democratic institutions in the region
- 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 nine-person board of directors appointed by the President of the United States and confirmed by the Senate. Six members of the board are selected from the private sector and three are appointed from U.S. agencies concerned with inter-American affairs. The board appoints a president who serves as chief executive officer. The IAF's 67-person staff is based in Rosslyn, Virginia. The IAF maintains no overseas staff or offices; its country representatives work at the Rosslyn office but travel regularly to Latin America and the Caribbean to review current projects and new proposals.

The IAF selects projects for support from numerous proposals received in the field. The principal criteria for project selection are derived from the institution's legislative mandate, as implemented through the board's policies. The criteria applied concern both the kinds of institutions to which grants may be made and the kinds of activities eligible for support.

Criteria on Institutions

Grants may be made to institutions that have the following characteristics:

1. They are local private institutions in Latin America or the Caribbean.
2. They are nonpartisan and do not engage in political activities.
3. They are established organizations with competent, committed leadership; a good record of performance; and roots in their local communities.
4. They are democratically organized and managed.

Criteria on Project Activities

Grants may be provided to support projects that have the following characteristics:

1. They benefit poor people, who participate in their design and management.
2. They are technically and managerially feasible and have the support of the local community.
3. They will strengthen the sponsoring organization and enable it to assume subsequent tasks.
4. They represent part of a broad range of activities that are innovative and experimental and offer promise for expansion or replication in other settings.
5. They are capable of being sustained with local support beyond the period of the grant.

Program Review

Over the past 16 years, the IAF has made more than 2,300 grants for \$223 million in 30 nations throughout Latin America and the Caribbean. Many grants are made to grass-roots organizations such as agricultural cooperatives, community associations, and small urban enterprises. Grants are also extended to larger organizations that work with credit, technical assistance, training, and marketing services. The average size of IAF grants is \$65,000; however, the IAF has made grants ranging from less than \$1,000 to \$2.5 million. In FY 1986, the IAF approved approximately 320 new and supplemental grants totaling \$21 million.

Among the grants made in FY 1986 were the following:

- \$95,954 to the Cooperativa dos Produtores Artesanais do Rio Grande do Norte in northeastern Brazil, to promote and strengthen artisan activities in 16 rural communities
- \$39,300 to the Cooperativa Autogestionaria de Ebanistas Minusvalidos in Costa Rica, to expand a woodworking shop to produce crutches, canes, and splints, and thus provide employment for Cooperative members who are handicapped by partial blindness, deafness, or mental retardation
- \$10,500 to Estudios e Investigaciones Latinoamericanas in Mexico, to offer a 3-month training course in construction principles and techniques for low-income urban women and to develop a job placement service
- \$88,915 to the Asociacion para la Vivienda Popular "Simon Bolivar" in Colombia, to develop a low-cost health program, including primary care and preventive services, for a low-income community in Bogota

- \$16,500 to Star Brite Candle Making Industries in Dominica, to purchase materials for the production of specialty candles for export in the Caribbean region
- \$9,150 to the Cooperativa Agricola "Cuilco" in Guatemala, to capitalize its loan program and provide the poorest members with credit needed to plant, cultivate, and market 90 acres of wheat

6.6.2 African Development Foundation

The African Development Foundation (ADF), a U.S. public corporation, was established in 1984 to provide development assistance to villagers and disadvantaged urban dwellers in Africa. Congress, after considerable deliberation, authorized the creation of the ADF in 1980. The ADF's mandate and operating procedures are based on principles derived from the lessons learned in delivering foreign assistance to Africa and other parts of the Third World. The ADF was established as an agency to identify appropriate and effective methods of delivering assistance to local African communities. As an agency, the ADF is also mandated to directly fund self-defined, small-scale development projects of indigenous people. These initiatives must be managed and controlled by or substantively representative of the interests of villagers or disadvantaged urban dwellers.

Since its inception in 1984, the ADF has provided \$6.815 million in support to 90 small grass-roots development and research projects in 23 African countries (Benin, Botswana, Cameroon, Cape Verde, Egypt, Ghana, Guinea, Kenya, Lesotho, Liberia, Malawi, Mali, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Somalia, Tanzania, Togo, Uganda, Zambia, and Zimbabwe). The projects range from economic/private sector development to agricultural/food production, community development, education/training, and research.

By the end of FY 1987, the ADF will have provided approximately \$10.9 million in assistance to 190 projects in 23 African countries. Special attention will be paid to evaluating ADF-assisted projects and disseminating the lessons learned by grantees and the ADF to African grass-roots organizations, U.S. policymakers, and others interested in African grass-roots development.

CHAPTER 7

U.S. SUPPORT OF MULTILATERAL PROGRAMS

7.1 UNITED NATIONS PROGRAMS

Development emerged as a major U.N. concern in the late 1940s, when the U.N. specialized agencies added technical assistance to the wide spectrum of activities that they financed from their assessed budgets. These initiatives were followed by the establishment of several programs or funds financed by voluntary contributions and exclusively devoted to development assistance activities and by the conversion of the United Nations International Children's Emergency Fund (UNICEF) in 1953 from a relief agency to a developmental organization (renamed, accordingly, the United Nations Children's Fund).

The development activities of the U.N. system received additional impetus in the 1960s with the creation of several new U.N. agencies: the World Food Program (WFP) in 1961, to mobilize food surpluses for development; the United Nations Capital Development Fund (UNCDF) in 1966, to provide assistance to the poorest developing countries; the United Nations Industrial Development Organization (UNIDO), also in 1966, to encourage industrialization in developing countries; and the United Nations Fund for Population Activities (UNFPA) in 1967. The most important event of the period was the creation in 1966 of the United Nations Development Program (UNDP) through the consolidation of two existing funds financed from voluntary contributions, the Expanded Program for Technical Assistance and the Special Fund. The United States played an active role in the creation of the UNDP, WFP, and UNFPA.

The creation of the UNDP was the first of several successive attempts to impose a more centralized structure on U.N. system development assistance. The most comprehensive of these attempts was the "Consensus of 1970," which laid down several broad principles, including the designation of the UNDP as a central fund for financing the technical cooperation activities of the U.N. system. A further attempt was made in 1978, with the appointment of (1) a Director-General for Development and International Economic Cooperation at U.N. headquarters in New York and (2) Resident Coordinators at the country level. (To date, all Resident Coordinators have also served as UNDP Resident Representatives.)

Organization for Economic Cooperation and Development (OECD) and U.N. statistics indicate that U.N. grant expenditures on operational activities for development rose from \$363 million in 1968 to \$2,546 million in 1985, an increase of 701 percent. The largest increase was registered by the WFP--from \$48 million in 1968 to \$779 million in 1985. The next largest increase was in the combined expenditures of the UNDP and its executing agencies, which rose from \$240 million in 1968 to \$1,460 million in 1985.

However, contrary to the clear intention of the Consensus of 1970, the share of these combined expenditures financed by the UNDP actually declined during the period, while the share financed by the specialized agencies and other executing agencies, from both assessed budget resources and extrabudgetary resources,

increased from 25 percent in 1968 to 49 percent in 1985. A major factor in the growth of extrabudgetary resources available to specialized agencies was a dramatic increase in development activities financed by bilateral donors through trust arrangements with the U.N. specialized agencies.

Worsening economic conditions in industrialized countries and heightened donor dissatisfaction with the efficiency and effectiveness of U.N. technical assistance operations have been cited as the major factors responsible for the leveling off (and even decline in real terms) of voluntary contributions to the UNDP during the mid-1970s and early 1980s. Specialized agencies initially reacted by further expanding their recourse to their assessed budgets to finance technical cooperation activities. However, since 1983, most attempts to bypass the voluntary contribution process have been held in check by "the zero program growth" policy of the United States and other major donors.

The United States has urged the United Nations and its specialized agencies to take advantage of the imposed financial austerity of the present period to institute the fundamental reforms needed to improve the effectiveness of the United Nations and its specialized agencies. Needed reforms include (1) greater donor influence at key decision points, (2) changes in program decision-making procedures to take into account program costs and effectiveness in the selection of programs and the setting of priorities, (3) more efficient implementation of programs, (4) improved evaluation of program performance and, (5) greater transparency of programs and budget processes to member nations.

The following paragraphs highlight some of the activities of U.N. organizations involved in economic development that have attracted special attention during 1986.

7.1.1 United Nations Development Program

During the June 1986 Governing Council session, the United States strongly endorsed the UNDP's role as coordinator and funder of technical assistance in the U.N. system and gave strong support to continued implementation of the package of reforms announced by the UNDP in 1985, including continued improvement in the UNDP's management and program quality. The UNDP was also requested at the Council meeting to take measures to speed program delivery and bring expenditures more in line with fund commitments.

7.1.2 United Nations Children's Fund (UNICEF)

The United States continues to express strong support for the Child Survival and Development Revolution program, especially its "universal immunization by 1990" initiative. In addition, the United States has continued to devote attention and funds to the more traditional forms of UNICEF activities, programs that are also of priority interest to the United States and that complement and reinforce U.S. development assistance, promote stability in developing countries, and demonstrate the importance the United States attaches to humanitarian assistance.

7.1.3 United Nations Industrial Development Organization (UNIDO)

On January 1, 1986, UNIDO became the 16th specialized agency of the U.N. system. The United States encouraged UNIDO's conversion to a specialized agency and supported the election of the present Director General. The United States endorses the new Director General's policy initiatives--in focusing UNIDO's efforts on agro-allied industries and small-enterprise and rural development--and the actions he has taken to stimulate private sector participation in UNIDO's industrial development activities. UNIDO's Investment Promotion Service office in New York, one of seven such offices worldwide, is being reorganized and moved to Washington, D.C. Increased U.S. financial support for a revitalized Washington office is expected in 1987.

7.1.4 United Nations Educational, Scientific, and Cultural Organization (UNESCO)

The United States withdrew from UNESCO at the end of 1984. During 1985, a U.S. Observer Mission to UNESCO was established to protect U.S. interests at UNESCO and to consult with like-minded member states on reform of the organization. Also, Secretary of State Schultz named a Reform Observation Panel of private citizens to assess and report on events within UNESCO and to express continued U.S. interest in reform. The panel worked actively during 1985 and 1986. Its mandate has been extended until March 1987.

7.1.5 United Nations Conference on Trade and Development (UNCTAD)

UNCTAD is a major forum for dialogue between the developed and developing nations. Critics among the industrial nations have pointed out frequently that the "dialogue" has too often consisted of unworkable demands for the transfer of wealth and unilateral concessions by the developed nations.

The United States and others have pressed for reform of UNCTAD for several years and have met with some success. The next conference (UNCTAD VII) of the organization is scheduled for Geneva in July 1987. The United States will continue to participate in UNCTAD activities, although the United States alone voted against the provisional agenda adopted by the Trade and Development Board in October. This vote was based on the U.S. belief that the organization should give greater attention to the essential role of the private sector in development and to the critical importance of government policies in aid-recipient countries.

7.2 ORGANIZATION OF AMERICAN STATES

The keystone of the inter-American system, which consists of six regional organizations, is the Organization of American States (OAS). The OAS, the Inter-American Institute for Cooperation in Agriculture, and the Pan-American Health Organization are the principal regional bodies engaged in technical assistance. In 1986, the United States contributed \$102 million in assessments and voluntary contributions to these organizations.

OAS programs in development assistance date from the early 1960s, when the United States initiated the Alliance for Progress. Two decades of experience have created a tested body of OAS professionals and institutional procedures for managing cooperation for development projects attuned to area needs, conditions, and policies. To date, the OAS has trained approximately 88,000 specialists, some 33,000 of these since 1970. Many received training at one of the 23 specialized Inter-American Centers jointly funded by the OAS and member countries. These centers provide specialized training, research, and extension services in such fields as land and water use, public administration, and agricultural research. Some of these centers have been turned over to the host country, as initially intended, once they acquired a sound financial and institutional structure (e.g., the Inter-American Center for Trade Development in Colombia).

Former OAS trainees serve in key positions in government, the private sector, higher education, and in other multilateral organizations (e.g., the UNDP). Because of the unique character of OAS capability in Latin America, the UNDP and the United Nations Environment Program (UNEP) have contracted OAS services to execute projects. The Pilcomayo River Basin project is illustrative of this practice: the OAS contributed \$75,000; the UNDP, \$1 million; and Bolivia, Paraguay, and Argentina, an additional \$1 million each. Nonmember countries have also increased their support for OAS programs; for example, France provided \$550,000 to a Nonconventional Energy project in Central America, to which the OAS contributed \$370,000 and A.I.D. contributed \$125,000.

OAS feasibility studies have led to over \$6 billion in follow-on financing by the World Bank and the Inter-American Development Bank, which was created at OAS initiative in 1959. The **Inter-American Institute for Cooperation in Agriculture** has been equally successful in obtaining substantial external financing to expand its regular programs; it received \$20.3 million in 1985.

The third major element in the tripod of inter-American multilateral cooperation, the **Pan-American Health Organization**, has worked closely with the OAS and the Inter-American Institute for Cooperation in Agriculture in an effective division of labor in areas such as animal disease eradication and animal husbandry. Coordination among the three organizations is greatly enhanced by a common language, educational background, and technical experience, as well as shared development objectives in the Americas. Each of these organizations has more than 25 years of experience in managing development projects. Each has also earned an enviable reputation for efficiency and achievement of results, as evidenced by the increasing level of external and private funding from nonmember countries and nongovernmental institutions. At the same time, the United States, as the major contributor, has been successful in influencing program objectives and guidelines to adjust them to correspond to basic U.S. objectives in development assistance.

In 1986, the OAS launched a new Program of Action to fight narcotic drugs. The program will be directed by the **Inter-American Drug Abuse Control Commission**, composed of 11 member states including the United States. The OAS Secretariat will set up regional training centers, a documentation center, and a data bank

on drug abuse and trafficking, and will provide technical assistance. The program will also focus the efforts of the diverse elements of the OAS system on the hemisphere's drug problem.

7.3 DEVELOPMENT ASSISTANCE COMMITTEE

It is noteworthy--and not entirely coincidental--that A.I.D. shares its 25th anniversary year with that of the OECD's Development Assistance Committee (DAC). The United States was instrumental in establishing the DAC and has provided strong leadership throughout its history.

Even as other member countries demonstrate increasing interest and active involvement in DAC activities and enhanced support for economic assistance efforts, the United States continues to exercise a key role in all aspects of aid coordination and in the DAC's valuable work of continual reexamination and reaffirmation of donor nations' responsibilities in the face of changing global circumstances.

The DAC's origins lie with the predecessor organization of the OECD, known as the Organization for European Economic Cooperation (OEEC). OEEC's initial focus on postwar economic recovery in Europe had, by 1960, been sufficiently successful to permit an outward look at the even more pressing needs of the developing nations, many of whom were facing the immediate challenges or imminent prospects of independence from colonial powers.

The United States joined seven other member countries of the OEEC in 1960 to form the Development Assistance Group (DAG), a body designed to facilitate regular consultation on ways to increase the flow of financial resources to developing countries on concessional terms. A year later, when the Organization for European Economic Cooperation was reconstituted as the Organization for Economic Cooperation and Development (in order to include non-European countries other than the United States and Canada, who had been members of the earlier group), the Development Assistance Group became the Development Assistance Committee.

Both the DAG and the DAC sought to achieve three major objectives, all of which remain valid today. As embodied in the Resolution on the Common Aid Effort agreed to by the DAG in March 1961, these objectives are to "secure an expansion of the aggregate volume of resources made available to the less-developed countries," while "improving their effectiveness," and "adapting [financial and technical] assistance to the requirements of the recipient countries."

Frequent consultation among donors was the overriding theme of the resolution, which also called on the United States to nominate a chairman for the DAG, with the understanding that the chair's tenure would continue when the DAG was superseded later that year by the DAC. James C. Riddleberger, former director of the U.S. International Cooperation Agency and U.S. ambassador, served as DAG/DAC chairman from 1961 to 1963. He was succeeded by six other distinguished Americans--Willard L. Thorp (1963-67), Edwin M. Martin (1968-73), Maurice J. Williams (1974-78), John P. Lewis (1979-81), Rutherford M. Poats (1982-85), and Joseph C.

Wheeler (the current chairman, who began his tenure in early 1986).

American leadership in the DAC has been a logical result of the generosity with which the United States has supported economic assistance throughout the developing world. In 1960, gross disbursements of concessional assistance to developing countries by the eight member countries of the DAG totaled just under \$5 billion, of which the United States provided 64 percent. By 1985, total gross disbursements of Official Development Assistance from DAC members--then totaling 17--had reached nearly \$40 billion. The U.S. share of this amount was 32 percent in 1985, reflecting the very substantial expansion of aid flows by other member countries.

Over the years, the DAC has contributed much to the effectiveness of development assistance by achieving consensus among donors on a number of key issues. As early as 1963, the DAC adopted a Resolution on the Terms and Conditions of Aid, recommending that members tailor their assistance to the specific needs of recipient countries or groups of countries, considered according to level of per capita GNP. Later agreements revised and expanded the original resolution to formulate specific recommendations on concessionality and provided a precise definition of Official Development Assistance.

Other formal DAC agreements have included the Recommendation on Food Problems of Less Developed Countries (1966), Guidelines on Coordination of Technical Assistance (1966), Guidelines on Local and Recurrent Cost Financing (1979), Guiding Principles for Aid Agencies for Supporting the Role of Women in Development (1983), and Guiding Principles for the Use of Aid in Association With Export Credits and Other Market Funds (1983). In addition, DAC members have frequently adopted statements suggesting basic approaches to critical issues. In 1977, for example, the DAC adopted such a statement on Development Cooperation for Economic Growth and Meeting Basic Human Needs.

A primary mechanism used by the DAC to promote coordination of donors' aid programs is the Annual Aid Review process. Each DAC member submits to the DAC an annual memorandum, describing in quantitative and qualitative terms the member's aid policies, programs, and practices. These memoranda serve as the basis for a process of constructive biennial review of each country's program by a panel comprising representatives from two other member countries who visit with aid officials in the donor country's capital. The statistical compendia attached to member countries' memoranda offer a valuable standardized data source on all aspects of economic assistance from DAC members. Combined with other statistics-gathering work of the DAC Secretariat, these annual reports make the DAC a unique source of comparable statistics on financial flows from OECD countries to developing countries.

The Annual Aid Review process culminates in a DAC meeting at which all member countries have an opportunity to question and raise matters of concern with high-level representative from the country under review. The United States is scheduled for its next such review in mid-1987.

The highlight of the annual DAC meetings is the December High-Level Meeting, at which the heads of member countries' aid agencies discuss matters of current interest and concern. Themes of the High-Level Meetings flow from the work of the DAC, its subcommittees and working groups, and its Secretariat. The United States currently chairs the DAC Working Party on Statistical Problems, the Expert Group on Women in Development, and the Expert Group on Aid Evaluation, three of the most active DAC bodies. At the December 1986 High-Level Meeting, the DAC approved a new consensus on Aid for Improved Development Policies and Implications for Aid Coordination, which reflected the DAC's basic, continuing concern with problems of aid coordination.

The ongoing topics of greatest current concern to the DAC and to the United States are the relationship between aid effectiveness and recipient-country economic policy, the role of the private sector in development, environmental issues associated with aid projects, and the appropriateness of various aid financing mechanisms and terms of aid to the needs of low-income countries. In addition, special DAC sessions have focused recently on issues such as energy and urban problems and on the challenge of responding to the urgent needs of Sub-Saharan Africa.

The value of the DAC lies in its ability to foster information exchange and creative thinking on ways to improve the effectiveness of foreign aid programs. It is a dynamic body that remains alert to the changing needs of the developing world while retaining the basic principles that led to its creation. The United States continues to be strongly committed to the DAC as a leading institution in the field of economic development.

7.4 MULTILATERAL DEVELOPMENT BANKS

Over the past 25 years, the multilateral development banks have moved to the center of international economic assistance efforts. Their loans and credits constitute a large proportion of the flow of funds going to developing countries. U.S. subscriptions and contributions to multilateral development banks have become a particularly important part of the total U.S. foreign economic assistance program.

Equally important, the catalytic and developmental role of the banks is being strengthened significantly in certain key areas. As indicated in last year's report, all the multilateral development banks have established programs designed to remove institutional and structural obstacles to the private sector and to enhance growth and productivity. The capital of the **International Finance Corporation** (the private sector arm of the World Bank) has been increased, and the **Inter-American Investment Corporation** has been established under the aegis of Inter-American Development Bank. In addition, the **Multilateral Investment Guarantee Agency** has been negotiated as an affiliate of the World Bank Group (see Section 4.4.6).

The **World Bank** is also taking a prominent part in the Baker initiative to address the problems of debtor countries. The Bank has also emphasized programs aimed at encouraging stabilization and longer term structural changes that are required in low-income

countries, particularly in Sub-Saharan Africa. As part of the Baker initiative, the World Bank is working toward the achievement of external financial equilibrium and the reduction of structural impediments to greater growth in major debtor countries.

The World Bank is making a growing number of structural adjustment loans to countries requiring assistance to achieve both of these goals. During 1986, its structural adjustment loans totaled \$777 million and supported programs in Burundi, Chile, Ivory Coast, Guinea, Mali, Niger, Senegal, and Togo.

Sector adjustment lending has also become an important part of the Bank's overall lending programs. Less comprehensive in scope than structural adjustment loans, this type of lending is also designed to support policy and structural change. In FY 1986, sectoral adjustment loans amounted to \$2.3 billion, or 14 percent of the total loans approved for the year. Since 1979, the World Bank has made loan commitments of nearly \$6.0 billion to support sectoral programs of policy and institutional change.

All of the multilateral development banks have continued to support projects across the spectrum of economic activities in their developing country members. In its fiscal year 1986, the World Bank's conventional lending, including both project and program lending, totaled \$13.3 billion. These conventional loans were made at near-market rates of interest for terms of 15 to 20 years. The Bank acts in effect as a financial intermediary, mobilizing funds from the world's private capital markets and on-lending those funds to its borrowers at a slightly higher rate of interest. Highly concessional lending has also continued through the Bank's soft loan affiliate, the International Development Association, which made loan commitments of more than \$3.0 billion in FY 1986.

Lending from the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank totaled approximately \$6.0 billion during calendar year 1985. Of this amount, approximately \$1.4 billion was on concessional terms and directed toward the least developed member countries of these banks.

During the course of 1986, the United States subscribed approximately \$4.0 billion in capital and concessional resources for the multilateral development banks. This included \$1.1 billion in subscriptions requiring budget authority and \$2.9 billion in subscriptions to callable capital. The United States also completed negotiations for a replenishment of the Asian Development Fund. At year's end, negotiations were continuing for a replenishment of resources for the International Development Association, for increases in capital in the Inter-American Development Bank and the African Development Bank, and for a replenishment of the Inter-American Development Bank's Special Fund for concessional lending.

GLOSSARY OF ABBREVIATIONS

ADF	- African Development Fund
A.I.D.	- Agency for International Development
BIFAD	- Board for International Food and Agricultural Development
BLS	- Bureau of Labor Statistics
CBI	- Caribbean Basin Initiative
CGIAR	- Consultative Group on International Agricultural Research
DAC	- Development Assistance Committee
DAG	- Development Assistance Group (predecessor to DAC)
DCC	- Development Coordination Committee
DOL	- U.S. Department of Labor
FY	- U.S. fiscal year (October 1 - September 31)
GDP	- gross domestic product
GNP	- gross national product
GSP	- Generalized System of Preferences
IAF	- Inter-American Foundation
ICRC	- International Committee of the Red Cross
IDA	- International Development Association
IDB	- Inter-American Development Bank
IDCA	- International Development and Cooperation Agency
IEP	- International Economic Policy, Department of Commerce
IFAD	- International Fund for Agricultural Development
IFC	- International Finance Corporation
IMF	- International Monetary Fund
ITA	- International Trade Administration, Department of Commerce
MIGA	- Multilateral Investment Guarantee Agency
OAS	- Organization of American States
ODA	- Official Development Assistance

GLOSSARY OF ABBREVIATIONS (cont.)

OECD	- Organization for Economic Cooperation and Development
OEEC	- Organization for European Economic Cooperation (predecessor to OECD)
OFDA	- Office of U.S. Foreign Disaster Assistance, A.I.D.
OPEC	- Organization of Petroleum Exporting Countries
OPIC	- Overseas Private Investment Corporation
PVO	- private voluntary organization
TDP	- Trade and Development Program
U.N.	- United Nations
UNDP	- United Nations Trade and Development Program
UNESCO	- United Nations Educational, Scientific, and Cultural Organization
UNFPA	- United Nations Fund for Population Activities
UNHCR	- United Nations High Commissioner for Refugees
UNICEF	- United Nations Children's Fund
UNIDO	- United Nations Industrial Development Organization
UNRWA	- United Nations Relief and Works Agency
U.S.	- United States
USDA	- U.S. Department of Agriculture
US&FCS	- U.S. and Foreign Commercial Service, Department of Commerce
WGMA	- Working Group on Multilateral Assistance, Development Coordination Committee
WID	- A.I.D. Office of Women in Development
WFP	- World Food Program