DEVELOPMENT ISSUES 1989

U.S. Actions Affecting Developing Countries

The 1989 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
Department of Energy
Department of Labor
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 Cooperation Agency

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

DIRECTOR

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TO THE CONGRESS OF THE UNITED STATES:

The Annual Report on Development Coordination discusses the events of the 1988 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. Such coordination has both formal and informal aspects. On the more formal side, coordination occurs through the DCC and its subsidiary bodies, including the working group on multilateral assistance, the subcommittee on food assistance, and, of course, the working group that collaborated in the production of this report. The other major mechanism of formal coordination entails participation by myself or members of my staff in the work of such interagency groups as the National Advisory Council, the Trade Policy Committee, the Cabinet Council on Economic Affairs, the Interagency Group on International Economic Affairs, and others. On the informal side of coordination, 1988 saw a continuation of the daily working relations between members of my staff and other agencies of the U.S. Government, with my own personal involvement as needed. We have thus continued to fulfill the mandate of ensuring that development goals and issues are taken into account in Executive Branch decision-making processes on international finance, investment, trade, technology, and other policy areas affecting developing countries.

U.S. policy in 1988, as in 1987, continued to reinforce our longstanding goal of providing necessary resources and technical assistance to address basic constraints to development. As in previous years, we continued to emphasize helping developing countries to establish sound economic policies in an environment conducive to encouraging 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.

Whatever level of resources we provide to developing countries, there is little doubt that economic growth and development will depend fundamentally on their own programs and policies. Development cooperation in all its forms--from outright grants through the important stimuli provided by trade and open markets--while often of great significance to development, can never be a substitute for a developing country's own efforts.

Alan Woods

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CHAPTER 1

INTRODUCTION: OBJECTIVES AND PRIORITIES OF U.S. ECONOMIC ASSISTANCE

The U.S. foreign economic assistance program is an integral part of the U.S. foreign policy framework. The economic assistance program seeks to promote political, social, and economic stability in developing countries by helping them achieve broad-based economic growth. These objectives are closely linked: lack of stability undermines long-term economic progress, and conversely, widespread poverty and economic stagnation breed instability.

Although the Agency for International Development (A.I.D.) is the major implementer of the U.S. Government development assistance program, other U.S. Government agencies, as well as Congress, private voluntary organizations, and foundations, participate in the economic assistance effort (see Chapter 5). U.S. assistance objectives and priorities are also served through U.S. support of the programs of multilateral institutions (see Chapter 6).

Many modes of assistance are available in the conduct of the U.S. foreign assistance program, and each mode is viewed and selected in the context of a coherent policy framework. These modes include the provision of economic policy advice, development assistance projects and programs, contributions to multilateral organizations, and emergency aid to developing countries. They also include such special programs as insurance for U.S. companies' investment in developing economies, the Caribbean Basin Initiative, and the Generalized System of Preferences (see Chapter 3). Because expanding international trade is essential for economic growth in developing countries, U.S. economic assistance supports the maintenance and extension of open international trade and investment.

The responsibility for broad-based economic growth and development rests on the developing countries themselves and ultimately on economic policy reform. Policy reform, however, entails difficult and often politically sensitive structural changes. A.I.D. is committed to helping countries make needed changes by carrying out policy dialogue with their government to identify where changes are needed, what new policies are appropriate, and how to implement them and deal with their effects. A.I.D.'s approach to the policy dialogue with individual countries is based on the understanding that market economies have the best economic development track record but that it is not possible to predict or anticipate all the secondary effects of even apparently straightforward policy changes.

People in countries undergoing economic policy reform should not suffer inordinately in the short run as a result of actions that will ultimately improve their economic circumstances. Although most of the difficulties faced by the more vulnerable groups predate policy reform efforts, such efforts can temporarily exacerbate their plight. Therefore, much U.S. economic assistance in support of policy reforms is designed to cushion the short-term effects of reforms on the more vulnerable groups.

Although A.I.D. emphasizes the importance of stimulating economic growth, the Agency conducts several programs to directly improve people's lives: health care, water supply and sanitation systems, voluntary family planning services, and education systems. A.I.D. will continue to nurture developing country capacity, private as well as public, to provide these services. In addition, for economic and humanitarian reasons, the Agency's commitment to provide assistance to countries ravaged by floods, famine, earthquakes, and other disasters remains absolute.

Ensuring that gains in productivity, health, and education are permanent is of the greatest importance. To that end, A.I.D. programs and projects incorporate mechanisms to help ensure the continuation of improved facilities and practices over time. Thus, for example, education on the uses of oral rehydration therapy is extended to health care providers within the national health care system, to private health care providers, and to family members. A.I.D. initiates or expands its support for the associated recurrent costs of such programs and projects in a manner that increases the likelihood that these activities will continue to be acceptable to subsequent governments.

A.I.D. programs are intended to reach a broad segment of society that will value, benefit from, and work to continue them. Achieving broad, equitable coverage for its programs often requires additional initiatives by A.I.D. to ensure extensive involvement by women. A.I.D. also works to safeguard the natural resources of the countries it assists to ensure the preservation of each nation's resource base so that resources are passed on to subsequent generations.

A.I.D. recognizes that the economic successes of the advanced developing nations will require new policy responses. The Agency will continue to explore options for transforming our relationship with those countries into a productive and more mature partnership linked through private trade and investment and through scientific, technical, and educational exchanges.

Section 572 of the FY 1989 Foreign Assistance Appropriations Act gives the President permanent authority to allow relatively less developed countries and Sub-Saharan African countries to repay previous development assistance and Economic Support Fund loans in local currencies. Under certain circumstances, the President is authorized to forgo repayment of such loans entirely, thus converting past Development Assistance and Economic Support Fund loans to grants. This provision, however, does not become effective until October 1, 1989, and then only if the President chooses to exercise the authority.

Finally, the Development Fund for Africa provides for greater flexibility in addressing the complex problems that continue to beset Africa, approaching these in both the short to medium term and the long term. This flexibility allows A.I.D. to be more immediately responsive to the governments of African countries that are most committed to better and fairer economic management. Through the Development Fund for Africa, A.I.D. will integrate project and nonproject resources to promote broad-based growth, in part by strengthening the role of the private sector. Fundamental to this approach is economic policy reform to reduce African governments' interventions in the productive sectors of the economy and to increase the capacity of those governments to provide social services more equitably and efficiently.

CHAPTER 2

ECONOMIC POLICY AND GROWTH: POLICY LESSONS FOR SUCCESS AND FAILURE

2.1 Introduction

Many developing economies, ranging from small island economies to large economies abundantly endowed with resources, have succeeded in achieving periods of rapid economic growth since the mid-1960s. Table 2-1 illustrates this by laying out the growth record for selected countries in Asia, Latin America, and Africa over the 23-year period between 1965 and 1987.

In Asia, for example, Singapore, South Korea, and Taiwan--three of the so-called newly industrializing countries (NICs)--recorded an annual growth rate of more than 6 percent in approximately 18 out of the 23 years, 80 percent of the time period. Their growth performance exceeded 3 percent in about 95 percent of the period. As these striking figures imply, high growth was sustained in these countries virtually without interruption. During only about 5 percent of the period were gross domestic product (GDP) growth rates in these countries less than 3 percent. Taiwan had a GDP growth rate below 3 percent in 1974, the year of the first oil shock. South Korea slid into negative growth in 1980, the first year of the recent worldwide recession. Singapore registered negative and less than 3 percent growth in 1985 and 1986, respectively. The Singapore record partly reflected a transitional result of a policy shift that began in the late 1970s, when Singapore began to emphasize investment in high value-added and high-technology industries.

The growth record of other countries in Asia, while not as buoyant as that of the NICs, was also fairly strong and sustained. For example, Malaysia, Thailand, and Indonesia averaged 6 percent or higher GDP growth during approximately 62 percent of the period. Pakistan registered 6-percent growth during approximately 43 percent of the period. These countries registered, on average, 3 percent or higher GDP growth over about 88 percent of the period. While Malaysia and Indonesia recorded only 1 year of negative growth, Thailand registered GDP growth of more than 3 percent in all 23 years.

Compared with these Asian countries, the growth performance of representative Latin American countries has been both lower and less sustained. Brazil, Mexico, Costa Rica, and the Dominican Republic registered 6 percent or higher GDP growth rates during only about 48 percent of the period; they averaged 3 percent or higher growth during 76 percent of the period, which is about 20 percentage points less than that recorded by the NICs. Interestingly, of the 21 years in which the four Latin American countries in this sample experienced negative or less than 3 percent growth, 16 occurred during the 1980s. In particular, 8 out of the 9 negative growth years of the four sample countries occurred during the 1981-86 period. The weakness of Latin American growth relative to Asian growth in the 1980s suggests that Latin America was less capable of quickly adjusting to the international repercus-

Table 2.1 GDP Growth Performance of Selected Developing Countries by Number and Percentage of Years in Selected Growth Rate Ranges, 1965-1987

Region/ Country	No. of Years by Growth Rate Range				% of Years in Range			
	Negative	Below 3%	Between 3% & 6%	Above 6%	Neg.	Below 3%	Above 3%	Above 6%
Asia								
Singapore	1 (1985)	1 (1986)	1	20	4	4	91	87
South Korea	1 (1980)	0	5	17	4	0	96	74
Taiwan	0	1 (1974)	4	18	0	4	96	78
Malaysia	1 (1985)	2 (1975, 1986)	5	15	4	9	87	65
Thailand	0	0	9	14	0	0	100	61
Indonesia	1 (1965)	4 (1966, 1967 1982, 1985)	4	14	4	17	82	61
Pakistan	2 (1967, 1970)	2 (1971, 1972)	9	10	9	9	83	43
Latin America								
Brazil	2 (1981, 1983)	2 (1970, 1982)	6	12	9	13	78	52
Mexico	3 (1982, 1983 1986)	2 (1985, 1987)	5	13	13	9	78	57
Costa Rica	2 (1981, 1982)	4 (1975, 1980, 1983, 1985)	7	10	9	17	74	43
Dominican Republic	2 (1965, 1985)	4 (1968, 1978, 1982, 1984)	8	9	9	17	74	39
Africa								
Botswana	3 (1965, 1975, 1982)	2 (1968, 1977)	0	18	13	9	78	78
Kenya	1 (1965)	5 (1967, 1974, 1975 1982, 1984)	9	8	4	22	74	35
Nigeria	11[a]	2 (1965, 1979)	2	8	48	9	43	35

Note: Figures in parentheses are years corresponding to growth range.

[a]Negative growth years are 1966-67, 1973, 1975, 1978, 1981-84, and 1986-87.

Souces: IMF, *International Financial Statistics Yearbook*, 1988; IMF, *Recent Economic Development*, various countries; World Bank, *World Development Report 1987* and unpublished GNP data; CEPD, *Taiwan Economic Statistics*, 1987.

sions of the oil shocks, inflation, high interest rates, and the recession-recovery episodes of the 1980s.

With the notable exception of Botswana, the growth record of representative African countries was the weakest. Both Kenya and Nigeria recorded rapid growth during only about 35 percent of the time period. The growth performance of Nigeria was notably erratic, registering negative growth during 11 of 23 years, or about 48 percent of the time period.

From the data presented above, it is clear that Singapore, South Korea, and Taiwan stand out; Hong Kong belongs in this group as well. These countries are distinguished both by the magnitude of their growth rates and by the sustainability of their growth over extended periods of time. Moreover, the NICs were the only countries that succeeded in combining growth with the virtual elimination of unemployment. If broad-based growth is defined as growth that is sustained over long periods and that is associated with broad participation of the workforce in the private sector, the NICs alone stand out.

What are the basic reasons for the observed difference in economic performance? Although there are no ironclad rules that determine why some economies have succeeded in achieving broad-based economic growth while others have not, there are some lessons to be learned from the policy framework adopted by the successful Asian NICs. There are equally significant policy lessons to be learned from the less successful developing countries in Africa, Latin America, and Asia.

In brief, the hallmark of the more successful developing economies is that they emphasized private sector initiatives and policies that promoted rapid adaptation to changing market conditions. In contrast, the less successful developing economies sought to protect or insulate their producers and consumers from changes in the economic environment, whether international or domestic. In allocating resources, these economies relied considerably more on state enterprises and less on private entrepreneurs and competitive market forces.

2.2 Economic Policy Framework of a Market-Oriented Development Strategy

Drawing on the Taiwan and South Korean experience, it is relatively easy to characterize the economic policy setting and structure necessary to achieve broad-based economic growth. It is, first of all, instructive to understand what South Korea and Taiwan did and why.

Up until the late 1950s and early 1960s, both Taiwan and South Korea followed the typical development path of an inward-looking growth strategy. Policymakers found, however, that they were constantly in a state of foreign exchange shortages. To address the problem, policymakers in Taiwan and South Korea initiated an outward-looking and market-oriented development strategy in the early 1960s and mid-1960s, respectively. The objective was to eliminate the shortfalls in foreign exchange that had required policymakers to restrain growth to levels compatible with slow growth in foreign exchange earnings. Since both countries, but South Korea in particular, had little relative advantage in the production and export of agriculture-based commodities, their approach focused on earning additional foreign exchange through the promotion of manufactured exports. This approach necessitated a major shift in policy framework--from one that favored import substitution to one that eliminated anti-export biases.

A major monetary policy reform was to decontrol interest rates. Interest rate reform helped reduce corruption and increase investment efficiency in the financial system. High interest rates generated large domestic bank deposits that became the basis for financing rising investment. Specialized financial institutions were created and developed to meet rising financial demand.

Policymakers overhauled the tax system, streamlined the tax code, and reinforced tax collection efforts. As a result, domestic tax revenues in South Korea, for example, increased more than 570 percent between 1965 and 1970. With the additional revenues, policymakers were able to undertake needed infrastructure investment without resorting to inflationary financing techniques.

Changes were also made in the foreign exchange regime. Policymakers realigned exchange rates and, to ease the transition, they also introduced a number of temporary benefits to exports. These included (1) installation of a system linking exports and imports, under which exporters were given preferential access to items under import quotas; (2) enactment of wastage allowance regulations to give exporters extra profit opportunities; (3) provision of preferential short-term loans against irrevocable letters of credit; (4) allowance of tax rebates on imported inputs for the production of exports; (5) application to exporters of preferential rates for public transportation and utilities; (6) provision of special tax benefits for profits from exports; (7) simplification of export and import procedures; and (8) increased availability of scarce foreign exchange for imported inputs required for the production of exports.

These policy and administrative reform measures created a macroeconomic environment in which financial rewards for producing for the export market were as high as those for producing for the domestic market. Exports of labor-intensive manufactured products became the engine of broad-based economic growth.

The growth that resulted from the creation of this economic environment was dramatic. Between 1964 and 1972, exports from South Korea and Taiwan increased at the astonishing rate of more than 30 percent a year. The number of different items that were exported also expanded rapidly, from approximately 100 in 1961 to more than 1,000 in 1972. Less than 10 years after the adoption of outward-looking development strategies, both Taiwan and South Korea no longer faced foreign exchange shortages. Although both countries still had negative trade balances, creditworthiness was well established and international bank credit was readily available. By the early 1970s, Taiwan and South Korea no longer needed assistance from the Agency for International Development (A.I.D.).

Perhaps the most remarkable phenomenon of the outward-looking development strategy was the steadily declining unemployment that permitted a broad segment of the population to share in the fruits of development. Since most exports were labor intensive, jobs for semiskilled workers increased proportionately to growth in exports. In South Korea, the unemployment rate was reduced by the early 1970s, from more than 12 percent in the late 1950s to less than 3 percent, where it has generally remained. The steady decline in unemployment and underemployment since the late 1950s was unprecedented (except possibly in Japan). Today, it is generally agreed that Taiwan and South Korea have the most egalitarian income distribution among all developing countries.

In conclusion, the experiences of Taiwan and South Korea suggest a simple lesson: to achieve broad-based economic growth, developing country governments should establish an economic policy framework that promotes the role of competitive market forces and private initiatives in achieving efficient allocation of human, financial, and material resources.

2.3 Economic Policy Framework of an Inward-Looking Development Strategy

In contrast to the market orientation of the successful NICs, most less successful developing countries adopted an inward-looking or nonmarket-oriented development strategy. Fiscal discipline was typically lax, resulting in the use of financing techniques that generated continuing inflation. Monetary policy was characterized by low or negative real interest rates and administrative allocation of credits. And exchange rate policy was characterized by undervalued foreign exchange that favored imports over exports. Governments subsidized public utility, transportation, and communication services and often supported labor legislation that protected the employed but did not promote employment. They nurtured their domestic industry behind highly protective tariff walls. They controlled and managed the means of production rather than allowing market forces and individual enterprises to determine production and generate growth. These state controls generally involved restrictions on prices and trade, protection of government-owned enterprises, and the use of high tariffs and related border protection devices to assist inefficient domestic industries. Protective regulations often drove entrepreneurs underground and confined economic rewards to a small fraction of the citizenry. This development strategy often resulted in the deterioration of the economic base, family income, and employment opportunities.

As a result of this economic policy environment, the structure of incentives for production, export, and import decisions resulted in major resource misallocation. For example, low-interest-rate loans that were supposed to stimulate productive investment encouraged investment in capital-intensive industries and discouraged the utilization of abundant labor. The demand for foreign exchange frequently exceeded the supply by a wide margin because of overvaluation of the national currency. The excess demand necessitated administrative control of the allocation of foreign exchange.

Under such circumstances, businesspeople frequently made greater profits by obtaining a right to the foreign exchange allocation from government officials than they could make from producing and marketing goods and services. Thus, the system favored corruption and the misallocation of resources. Foreign exchange allocation and loan approvals were frequently made for personal and political reasons rather than on the basis of import needs or return to investment. Some government officials in charge of foreign exchange allocations and bank officials responsible for low-interest loans often demanded and obtained disguised commissions, which often became a cause for broad social corruption.

The policy scenario outlined above accords well with the policy orientation of virtually all of the less successful developing countries, both in Asia and elsewhere, whose performance records are illustrated in Table 2-1.

2.4 Growth and Internal Policy

South Korea and Taiwan are by no means the only countries whose growth records suggest that market-oriented policies have positive effects on growth performance. To examine this relationship, A.I.D. recently initiated a study addressing two questions: Do developing country economic policy frameworks promote or suppress efficiency in resource allocation (i.e., competitive market forces)? Are growth rates likely to be higher for countries whose economic policy framework promotes efficiency in resource allocation?

The investigation covered 42 A.I.D. recipient countries for two periods in the 1980s, 1980-83 and 1984-87. A questionnaire was designed to assess the extent to which each country's economic policy framework--its fiscal, monetary, trade, pricing, regulatory policies, and so on--promoted or suppressed efficiency in resource allocation. Then, the economic policy frameworks of the 42 countries were ranked according to the score they received on the questionnaire.

The policy framework questionnaire was designed to measure, through a series of yes (-1) and no (+1) responses to 39 questions, the extent to which a country's economic policy framework suppressed or promoted the role of competitive market forces in allocating the resources available to the country. The higher the score, the more is economic policy oriented toward promoting the role of competitive market forces in resource allocation.

To provide perspective and a notional upper bound on the scores received by the 42 A.I.D. recipient countries, the questionnaire was also filled out for the United States and Singapore. The questionnaire was quite broad, dividing the 39 questions into seven policy subregimes (pricing, tax/fiscal, foreign trade and exchange, regulatory/legal, credit/monetary, and two regimes that characterize the capacity to respond to adjustment requirements).

The results in summary form are set forth in Table 2-2. In brief, Column 1 of Table 2-2 ranks 42 A.I.D. recipient countries by the score each country received on the policy framework questionnaire. Column 2 arrays the recorded growth rates (average annual per capita) alongside the policy framework scores for each of the 42 countries. To facilitate comparisons, the

Table 2-2. Internal Policies and Economic Growth: The Link Between the Policy Framework and Growth Record for 42 A.I.D. Recipient Countries in the 1980s

Policy Score Group	1980-1983 Country	1980-1983 Policy Score	1980-1983 Growth Rate	1984-1987 Country	1984-1987 Policy Score	1984-1987 Growth Rate
Group I: Low	Mozambique	-32.0	-0.95	Egypt	-30.5	-1.14
	Bolivia	-31.0	-4.95	El Salvador	-27.0	1.62
	Ghana	-30.0	-7.15	Peru	-26.5	2.69
	Guinea	-30.0	0.88	Dom. Repub.	-20.5	-3.60[a]
	Egypt	-28.5	3.31	Sudan	-20.5	-4.04
	Dom. Repub.	-27.5	0.16	Mozambique	-20.0	-3.65[b]
	El Salvador	-26.0	-5.50	Honduras	-15.5	-0.59
	Ecuador	-25.5	-3.25	Liberia	-14.5	-3.27
	Pakistan	-25.5	1.89	Ecuador	-13.5	-1.40
	Zaire	-25.0	-3.55	Tanzania	-13.5	-1.46
	Average	***-28.1***	***-1.91***	***Average***	***-20.2***	***-1.48***
Group II: Medium Low	Sudan	-24.0	1.71	Somalia	-9.0	-8.66[b]
	Jamaica	-23.5	0.25	Uganda	-9.0	-0.54
	Tanzania	-23.0	-4.44	Pakistan	-6.5	3.90
	CostaRica	-19.0	-5.33	Guatemala	-6.0	-3.48
	Somalia	-14.0	-1.38	Mali	-3.5	1.07
	Madagascar	-14.0	-5.63	India	-2.0	3.03
	Mali	-12.0	-2.10	Haiti	-1.0	-1.83
	Kenya	-11.0	-2.74	Senegal	-1.0	0.64
	Gambia	-11.0	1.77	Rwanda	-1.0	2.17
	Senegal	-11.0	2.19	Zaire	-1.0	0.09
	Honduras	-10.5	-4.58	Jamaica	-0.5	-1.58
	Average	***-15.7***	***-1.84***	***Average***	***-3.7***	***-0.47***
Group III: Medium High	Burundi	-10.0	-0.91	Kenya	1.5	-0.06
	India	-10.0	4.07	Burundi	2.0	0.90
	Uganda	-9.0	3.99	Bangladesh	3.5	5.06
	Guatemala	-9.0	-4.50	Indonesia	4.0	0.56
	Niger	-8.5	-4.43	Zambia	7.0	-3.36
	Peru	-6.0	-3.97	Madagascar	7.5	-1.35
	Haiti	-6.0	-3.63	Ghana	8.0	-0.02
	Rwanda	-5.0	1.30	Niger	8.0	2.48
	Philippines	-5.0	0.83	Gambia	9.5	-3.16
	Bangladesh	-4.0	0.80	Philippines	10.5	-2.85
	Indonesia	-3.5	5.47	Costa Rica	11.0	0.44
	Average	***-6.9***	***-0.09***	***Average***	***6.6***	***-0.12***
Group IV: High	Zambia	-3.0	-3.07	Belize	13.5	-0.02[b]
	Liberia	4.5	-2.41	Guinea	18.0	-3.62[b]
	Belize	7.5	-0.04	Jordan	18.5	0.24
	Jordan	12.0	2.52	Thailand	18.5	1.62
	Thailand	14.5	3.18	Botswana	20.0	6.66
	Malawi	16.0	-3.82	Bolivia	20.0	-4.30
	Lesotho	20.5	-2.01	Lesotho	20.5	6.43
	Botswana	22.0	4.59	Malawi	21.5	-1.53
	Cameroon	24.0	6.30	Cameroon	22.0	2.50
	Swaziland	28.5	-1.73	Swaziland	29.5	9.06[b]
	Average	***14.7***	***0.35***	***Average***	***20.2***	***1.70***
Average of 42 Countries		**-9.1**	**-0.88**		**0.8**	**-0.10**
Reference Group	**Singapore**	**33**	**7.61**	**Singapore**	**33**	**4.72**
	U.S.A.	**30**	**0.55**	**U.S.A.**	**30**	**2.05**

[a]1984/86.
[b]1984/85.

42 countries are divided into four approximately equal subgroups, with the top and bottom subgroups comprising the 10 countries with the highest and the lowest policy scores and the two middle policy score subgroups comprising 11 countries each. The gap in the average annual growth rate between the 10 countries with the highest policy framework scores and the 10 countries with the lowest scores was at least 2.3 percentage points. The gap in growth rates between the top-scoring group and the average growth rate of all three lower scoring groups was at least 1.5 percentage points.

These differences are significant. An annual growth that is 2.3 or even 1.5 percentage points above what would otherwise prevail would result in a per capita income level 25 percent or 16 percent higher in the year 2000. Put another way, suppose that in the absence of improved policies, developing country growth rates would be sufficient only to keep per capita income from falling. A favorable shift in the policy environment, in contrast, could change such a no-growth-in-per-capita-income scenario for the 1990s to a case with a 25-percent or 16-percent increase in per capita income in the year 2000. Over a 20-year period, this would compound to a 57 percent or 35 percent increase in per capita income. There is clearly room for substantial improvement in the efficiency with which developing country policies allocate resources and good evidence that such improvements could result in quantitatively important increases in growth rates.

There are, of course, powerful forces that have nothing to do with internal developing country economic policies but that are important determinants of developing country economic growth. These include, for example, world market prices and volume demand for the products developing countries export, prices for the products they import from developed countries, interest rates on external debt, and the openness of developed country markets to the products in which developing countries have a comparative advantage. Given the obvious weight of these exogenous factors in determining the level of growth, why should special attention be paid to the way the economic policy environment affects the allocation of resources in developing countries? The answers are clear.

First, the internal policy environment is unique in that it is the only variable determining performance that is directly under developing country control. While developing countries can do little to directly influence world demand and prices for their products, the interest rates they pay on their external debt, or the trade openness of industrialized countries, they can alter their internal policy environments. Second, while good policies cannot ensure that good growth rates will result, such policies can compress the gap between actual and potential growth rates. In essence, performance will be better with good policies than with bad policies even though the level of growth might be very low or negative because of external factors over which developing countries have no control. Finally, prospects are not good for significant increases in external resource availability for developing countries in the 1990s. Private creditors of developing countries, recalling the debt crises of the 1980s, will likely remain cautious in considering the creditworthiness of private and sovereign risk loans to developing countries. There are, moreover, no grounds for optimism that multilateral and bilateral official flows will grow at levels that will serve to replace a reduction in net private flows. With limited external resources available, developing countries need policies that will ensure efficient use of their domestic resources. All three of these factors provide strong arguments for emphasizing the importance to growth of the internal policy framework.

2.5 Policy Measures Necessary To Sustain Growth

The macroeconomic policy framework outlined above should not be regarded as sufficient to achieve broad-based economic growth. It should be supplemented by high levels of investment in labor-intensive production, a supply of skilled and semiskilled workers, physical infrastructure, and development institutions.

Because the industrialized countries' demand for exports from a particular developing country is highly elastic, any individual developing country's export growth is constrained mainly by production capacity. The availability of domestic savings and foreign capital for investment in productive capacities, therefore, ultimately determines export expansion and future economic growth. To encourage domestic savings, policymakers must maintain positive real interest rates on financial deposits. Property rights must be secure and foreign investment laws must be liberalized to promote and encourage the inflow of foreign savings and capital formation. Foreign capital inflows will supplement domestic investment resources and induce foreign technology transfer.

Another critical measure needed to sustain rapid economic growth is the steady accumulation of human capital. To maintain a comparative advantage in world markets, a developing country must be able to supply a stream of relatively inexpensive skilled and semiskilled workers. High-quality primary and secondary education systems must be instituted and maintained to secure a pool of readily trainable workers. In short, high-quality education results in greater worker productivity, which in turn makes exports more competitive in world markets. Maintenance of high worker productivity cannot be overemphasized.

Physical infrastructure investment is also a necessary component of broad-based growth. Successful exports require not only the production of goods and services that can compete in quality and price in world markets, but also their timely delivery. To this end, internal and external transportation facilities should be expanded, the supply of electricity must be made reliable, port congestion should be minimized, air transportation should be expanded, and telecommunications must be modernized. Policymakers must give high priority to public infrastructure investment and undertake the necessary investment in the early stages of a country's development.

Finally, the economy needs to establish various development-related institutions and employ highly competent professionals to advise policymakers concerning the future direction of both the domestic and the world economy. Examples of core development institutions include those devoted to planning and policy analysis, advances in science and technology, investment financing, and mobilization and disbursement of foreign exchange. Policymakers should rely on these institutions for advice on development planning, policy reform, and world market trends.

2.6 External Environment

While the internal economic policy framework of a country is an important factor determining economic growth, there are other equally powerful factors that are external to the country (see Section 2.4). The degree of openness of industrialized markets to the products in which developing countries have a comparative advantage is one of the key external factors. From the end of World War II through the early 1980s, the United States and other industrialized countries promoted trade of manufactures by reducing tariff rates through various rounds of negotiations under the General Agreement on Tariffs and Trade (GATT). World trade of manufactured products expanded rapidly at approximately 10 percent a year over a period of more than 25 years. The outward-looking and market-oriented economies of East Asia were fortunate recipients of the benefits of the open world-trade regime.

In recent years, however, industrialized countries have erected various trade and nontrade barriers to ease the effect of rising imports. Despite the rising protectionism, developing country export growth accelerated, according to the latest World Bank report, from an average annual growth rate of 2.6 percent in 1979-1986 to 8.6 percent in 1987 and near 8 percent in 1988. In the United States alone, imports of manufactures from developing countries grew at an average annual rate of 17 percent from 1980 to 1987. This export growth has been achieved despite the fact that the exports of developing countries are generally subject to higher tariffs and nontariff barriers than trade barriers imposed among developed countries themselves.

The best response to the rising protectionism could be obtained through the Uruguay Round of GATT negotiations. The far-reaching U.S. proposal for global agricultural trade reform is an example of an initiative that could substantially benefit developing economies (see Section 3.2.1). It will be important, however, for developing countries themselves to participate more fully in this round of multilateral trade liberalization negotiations than they have in the past. In addition, developing countries should be aware that although current GATT rules exempt developing countries from most trade policy obligations, liberal use of the privilege would likely weaken the political will in industrial countries to reduce trade barriers in product areas benefiting developing countries. Such exemptions also run counter to lessons learned from successful outward-oriented development strategies.

2.7 Newly Emerging Developing Countries

Recently, a number of developing countries have begun to adopt more outward-looking and market-oriented development strategies. These include Indonesia, Malaysia, Pakistan, Sri Lanka, Thailand, Tunisia, Costa Rica, Jamaica, Mexico, Ghana, Kenya, and Malawi. Even countries with planned economies, such as China, the Soviet Union, and India, have incorporated elements of an outward-looking strategy in their development plans. It is too early to assess impacts on the level and sustainability of growth, but there are favorable signs in a number of these countries.

For many newly emerging developing countries, however, the approach to creating a favorable economic environment has been to simply graft certain aspects of an outward-looking strategy to their traditional inward-looking economic structure rather than to undertake an overall restructuring of their economy. Thus, while most have undertaken exchange rate adjustments, only some have allowed interest rates to seek market levels and very few have initiated tax structure reforms. Many have established and encouraged the expansion of export-processing zones to provide jobs and earn foreign exchange. Consequently, nontraditional exports have increased rapidly in most of the newly emerging developing countries.

Whether or not the emerging developing countries can maintain their growth momentum depends on the political and economic resolve of policy-makers to undertake additional difficult policy reform measures. The decade of the 1990s will be crucial for many of these newly emerging developing countries.

CHAPTER 3

DEVELOPMENT AND THE WORLD ECONOMY

3.1 The Economic Environment for Developing Countries in 1988

3.1.1 Economic Performance of Developing Countries

The year 1988 marked an unexpected improvement in the world economy, according to the International Monetary Fund's (IMF) *World Economic Outlook* (October 1988). Despite the global decline in stock market prices in October 1987, average economic growth rates of industrial countries continued to increase from 2.7 percent in 1986 and 3.3 percent in 1987 to 3.9 percent in 1988. Overall average growth for developing countries was modest but positive, with the average gross domestic product (GDP) growth rate increasing from 3.4 percent in 1987 to an estimated 3.6 percent in 1988.

The economic performance of developing countries by region was mixed. Investment, trade, stability of incentives, and external debt tended to be the most important determinants of economic growth rates. In general, countries with limited debt servicing problems benefited more from world growth than did countries with serious debt problems. As in previous years, developing countries in Asia performed considerably better than did those in other regions because of the growth in exports of manufactured goods to industrial countries. The average GDP growth rate of the Asian economies was 6.8 percent in 1987 and an estimated 7.3 percent in 1988. Despite an increase in agricultural output in African countries, the average GDP growth rate in this region increased only slightly, from 2.3 percent in 1987 to an estimated 2.6 percent in 1988. GDP growth rates in developing countries in the Middle East increased from negative 0.5 percent in 1987 to 0.9 percent in 1988 due to a partial recovery in oil prices and reductions in budget outlays. Latin America was the only region to experience a decline in the average growth rate of GDP, which fell from 2.5 percent in 1987 to an estimated 1.4 percent in 1988. This downturn can be attributed primarily to the delay in implementing policy changes to address macroeconomic imbalances.

Preliminary indicators of growth prospects for developing countries in 1989 show a continued modest improvement in growth rates for all regions except Asia, which is not expected to maintain its exceptionally high growth rate of 7.3 percent because of protectionist measures in industrialized countries. Primary commodity exporters in Africa will have to overcome considerable challenges to maintain current growth rates in the face of less favorable terms of trade and the narrowness of their export base. Growth in Latin America will depend largely on governments' ability to address the causes of inflation and problems posed by heavy debt burdens.

Although the economies of developing countries improved slightly in 1988, the improvements have been modest as a result of debt overhang, rising interest rates, and less favorable terms of trade. In addition, rising debt-service obligations and reduced lending from foreign sources in 1987 resulted in a net resource transfer of $26 billion from developing countries to industrial countries. This was a slight improvement over 1986, when net resource transfers from developing countries to industrial countries were $36 billion. Net resource transfers from developing countries have been negative since 1982, when they reached a net outflow of $8 billion. The response of many developing countries has been to reduce import, investment, and consumption levels.

Investment as a percentage of GDP in developing countries declined from 26.3 percent in 1981 to 23.5 percent in 1983. With minor fluctuations, it has remained at that level over the past 5 years. The estimated rate of investment in 1988 was 23.5 percent. Investment in Sub-Saharan African countries mirrored this trend, with the investment level falling from 26.7 percent of GDP in 1981 to 18.4 percent in 1985 and rising to 20.9 percent in 1988. Similarly, Latin American countries experienced a decline in investment levels from 22.9 percent in 1981 to 18.1 percent in 1988. Only Asia has been able to maintain a relatively high level of investment with minimum slippage; its estimated ratio of investment to GDP was 27.6 percent in 1988.

International trade, like investment, is a key determinant of the pace of economic growth. A healthy trading environment can generate the foreign exchange needed for debt service and capital imports. In low-income countries, primary commodity exports account for an average of 72 percent of all export earnings. Although several commodity prices increased over the past year (copper, tin, and aluminum), prices for other important commodities, such as fuel and tropical beverages, declined. Overall, real commodity prices in 1987 were 32 percent below the average price between 1980 and 1984 because of depressed demand in industrialized countries resulting from slowed growth, reduced demand for industrial raw materials caused by technological shifts, and an expanded commodity supply resulting from subsidized production.

Developing countries' export volumes in 1988 increased at 7.7 percent, compared with 8.6 percent in 1987. Africa moved from an export growth rate of negative 2.9 percent in 1987 to an estimated increase in export volume of 0.1 percent in 1988. Developing countries in Latin America and the Middle East increased their export volume by 8.0 percent and 4.9 percent, respectively. This was an improvement over 1987, when export volumes in these regions grew 6.5 percent and a negative 1.3 percent, respectively. Asian countries achieved a strong export growth rate of 10.9 percent; however, this was considerably lower than in 1987, when export volumes expanded by 16.6 percent.

Decreases in commodity prices combined with increases in import prices resulted in a 2.3-percent decline in the terms of trade for developing countries in 1988, compared with a 3.1-percent increase in 1987. Low fuel prices caused Middle Eastern developing countries to experience the greatest decline in the terms of trade, which plunged 15.6 percent in 1988 after having risen 11.6 percent in 1987. Sub-Saharan countries also faced a shift in the terms of trade from a 2.2-percent improvement in 1987 to a 4-percent decline in

1988. The 1988 terms of trade for developing countries in Asia and Latin America increased by 0.3 percent and 0.6 percent, respectively.

Total debt outstanding for developing countries in 1988 rose 4 percent to $1,218 billion. This increase exacerbated inflation in countries with high levels of debt. Consequently, their domestic saving and investment levels decreased and resource allocation efficiency was severely reduced.

3.1.2 Prospects and Potential Problems

Modest GDP growth of 4.3 percent in 1989 and 4.7 percent in 1990 is projected for developing countries (see Table 3-1). However, the distribution of this growth will not be uniform. Countries without serious debt problems and with a strong investment performance and a basic balance in their economies are projected to grow twice as rapidly as those with imbalances and debt-servicing difficulties. The latter group of countries is likely to face high rates of inflation, which may result in further reductions in domestic savings and investment. Their debt-export ratio is projected to be two-thirds higher at the end of 1989 than at the beginning of the decade.

Table 3-1. Capital-Importing Developing Countries: Average Annual Growth Rates, 1987-92

Indicator	1987	1988	1989	Average 1990-92
Real GDP	4.1	4.1	4.3	4.7
Investment Ratio[a]	22.8	23.2	23.6	24.0
Export Volume	10.3	8.2	7.3	6.2
Terms of Trade[b]	1.4	0.2	-0.3	0.1
Import Volume	6.5	9.2	8.6	6.7

[a]As a percentage of gross domestic product.
[b]Percentage change.

Source: IMF, *World Economic Outlook* (October 1988).

Improvement of domestic policies and progress in achieving structural adjustment are the main challenges facing developing countries in 1989 and the early 1990s. In the area of domestic policy, developing countries particularly need to increase savings by offering real positive rates of interest, use existing resources more efficiently, and improve incentives through price adjustments. Failure to achieve even one of these elements will impinge on a country's ability to foster the investment needed for sustainable growth.

Primary-product-exporting African countries face the added external obstacle of declining export purchasing power. Since 1985, their purchasing power has declined 17 percent. With real interest rates expected to remain at their 1987 level, the terms of trade for these countries are likely to deteriorate further.

Given the decreased availability of foreign financing, Latin America will be able to maintain investment levels only if it succeeds in increasing domestic savings. Measures to address excessive capital flight are also necessary.

The expected fiscal tightening and protectionist measures in developed countries may constrain Asia's future exports to industrialized countries. Therefore, average GDP growth is expected to fall slightly in 1989 to 6.3 percent. GDP growth for countries in the Middle East is expected to be the lowest of any region as these countries continue to adjust to the effects of the 1986 drop in oil prices.

3.2 U.S. Trade Policy and Developing Countries

Over the past 30 years, the United States has been working toward the formulation of international economic and trade policies that would contribute to the development efforts of developing countries and their integration into the international trading system. These efforts are designed to encourage developing countries to pursue sound economic policies based on the principles of market forces and liberalized trade. As part of this overall policy direction, the United States supports the maintenance and expansion of an open world trading system that provides free market access for goods and services produced by developing countries.

3.2.1 The Administration's Trade Policy

In September 1985, President Reagan outlined a trade policy program that 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 multilateral trading system, and reduce or eliminate other nations' unfair trade practices.

The President's policy has achieved major progress on all fronts. Since 1985, at the initiative of the United States, the major industrial countries have implemented a process for economic policy coordination toward the goal of sustained global growth with low inflation, reduced external imbalances, and greater stability of exchange rates.

The Uruguay Round. A major element of the Administration's trade program is the strengthening of the international trading system through comprehensive multilateral trade negotiations in the General Agreement on Tariffs and Trade (GATT). The Uruguay Round of Multilateral Trade Negotiations was launched in September 1986 and represents a commitment by the international trading community to strengthen the multilateral trading system. The

United States has put forward proposals on all aspects of the Round, including an ambitious initiative announced by President Reagan on July 6, 1987, calling for the elimination of all agricultural trade barriers and trade-distorting practices. In addition to agriculture, the United States is seeking new rules covering trade in services, trade-related investment, and intellectual property protection, as well as the strengthening of GATT dispute settlement and institutional capabilities and integration of developing countries into the trading system.

The Montreal Mid-Term Review, held December 5-9, 1988, marked the midpoint of the 4-year Uruguay Round negotiating process. Its purpose was to assess progress, provide political-level impetus to the negotiation, and establish a "framework" outlining the objectives for each of the 15 negotiating groups for the remaining 2 years of the Round.

Important agreements were achieved in 11 of the 15 negotiating areas. Especially important to the United States was an agreement on services that will accelerate the negotiations on meaningful rules governing international trade in services. Other significant agreements were reached on strengthening GATT rules and procedures, notably improving the effectiveness of GATT dispute settlement and establishing a trade policy review mechanism for regular GATT review of each member's trade regime. Ministers reached agreement on an agenda for investment that leaves all trade-related investment measures on the negotiating table. A commitment was made to tariff reductions at least as ambitious as those made during the Tokyo Round and to substantial increases in tariff bindings. Tariff negotiations will proceed with the United States pursuing a request/offer procedure. In addition, ministers declared their determination to complete the Round as planned in 1990.

The 11 completed agreements are on hold until early April 1989, when another meeting of the Trade Negotiations Committee at the senior officials level will take place in Geneva. In the interim, the Director General of GATT will consult participants in an effort to reach agreement in the remaining four areas: agriculture, intellectual property, textiles, and safeguards. Agreements in textiles and safeguards would have been possible had agreements been reached in agriculture and intellectual property.

Disciplining international agriculture and bringing adequate intellectual property standards and enforcement under the GATT, the two most contentious and difficult issues on the agenda, are elements critical to the success of the Uruguay Round. While progress was made in narrowing the differences, final agreement was not reached in Montreal.

Agriculture is the most controversial issue being negotiated because of fundamental differences in approaches to agriculture by major producers. Because of the seriousness and magnitude of the problems in agricultural trade, establishing discipline for trade in agriculture is a major U.S. objective in the Uruguay Round. The United States continues to seek agreement among GATT members to end all trade-distorting agricultural programs by a specified date.

Although there has been some narrowing of differences in the positions of GATT members, fundamental historical differences of approach to agriculture among the members could not be overcome at the Mid-Term Review. By agreeing to hold another meeting of the Trade Negotiations Committee in early April 1989, and by placing all agreements achieved in Montreal in abeyance until that time, additional pressure will be created that may be sufficient to generate the political will necessary to resolve this matter.

The United States believes that open markets are essential for long-term sustainable growth in the world economy. The GATT has played a primary role in creating the open trading system that has been an engine of world prosperity in the postwar era. The Uruguay Round should set the stage for expanded trade under more liberal market conditions by reducing the barriers to trade in goods and services and strengthening the GATT as an institution. The United States hopes that the Uruguay Round will foster market-oriented adjustment and that developing countries, particularly advanced developing countries, will assume increased GATT obligations and responsibilities commensurate with their increasing role in world trade.

It should be pointed out that the United States and other members of the Organization for Economic-Cooperation and Development have expressed a willingness to explore means of transforming trade liberalization measures that countries are adopting under World Bank and IMF programs into concessions of value in the GATT context. The United States also is examining measures that could be taken on a multilateral basis, in the overall context of the Uruguay Round, to liberalize tariffs and selected nontariff measures on the exports of as many as 39 of the least developed developing countries. The United States would like to see the industrialized countries extend such treatment to these least developed countries at the conclusion of negotiations. The United States is examining the effect of eliminating tariffs on all products for least developed countries; liberalization of nontariff measures would be in sectors other than textiles and apparel.

Fighting Unfair Trade Practices. The United States in 1988 continued its efforts to address unfair trade practices abroad. Section 301 of the Trade Act of 1974, as amended, authorizes the U.S. Trade Representative 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.

Since September 1985, the United States has challenged unfair trade practices more than two dozen times by initiating or threatening to initiate investigations under section 301. In a majority of the cases this has resulted in an end to the dispute. In the remaining cases, the disputes are either still under investigation, the President has ordered sanctions, or the disputes have been referred to GATT. The following are examples of recent trade disputes.

- In May 1988, the United States and India settled a 7-year dispute over trade in almonds that will result in increased access to the Indian market. During the first 3 years of the agreement, India will allow its annual almond imports to increase to $20 million. In the second 3-year period, India will remove all import licensing restrictions on almonds.

-- In October 1988, in retaliation for Brazil's refusal to provide patent protection for U.S. pharmaceuticals and fine chemicals, President Reagan imposed prohibitive, 100-percent ad valorem tariffs on Brazilian exports of certain non-benzenoid drugs, consumer electronics items, and paper products. This action followed an unfair trade investigation under section 301 and 2 years of unsatisfactory bilateral negotiations.

-- In July 1988, after more than two decades of dispute, the United States and Japan reached agreement on Japan's quotas and other restrictive practices relating to the importation of oranges, orange juice, and beef. The agreement provides for a 3-year phaseout of import quotas on beef products and fresh oranges and a 4-year phaseout of quotas on orange juice. Japan will have the privilege of temporarily raising duties on beef products to certain specified levels during a second 3-year adjustment period, at the end of which the Japanese beef market will be fully liberalized.

-- On January 1, 1989, the United States retaliated against the European Community (EC) in response to EC implementation of a ban on imports of meat treated with growth-promoting hormones. The EC imposed the ban despite internationally recognized scientific evidence that certain hormones, if properly used, pose no risk to human health. The U.S. Government considers the ban an unjustifiable restriction on trade. The President imposed prohibitive tariffs on approximately $97 million of EC exports to the United States, equivalent to the estimated damage to U.S. exporters.

In addition to section 301, the United States has used other means to fight unfair trade practices, including continued work in the GATT to reduce and eliminate unfair trade restrictions and export subsidies. In August 1988, the United States and Japan signed an agreement that will result in the resolution of a longstanding dispute regarding Japanese import quotas on 11 categories of processed food products. Japan will end quotas on seven categories by April 1, 1990, and provide partial lifting of quotas, substantial increased access, or compensation in the other four categories. This agreement was reached after the GATT had found 10 of the quotas to be illegal.

3.2.2 Other U.S. Trade Actions in 1988

In January 1988, President Reagan and Canadian Prime Minister Brian Mulroney signed a historic free trade agreement to liberalize trade between the two nations. Under the agreement, all tariffs will be eliminated over 10 years. In addition, binding rules will be established for the estimated $25 billion in trade in services between the two countries, the first international services agreement of its kind. President Reagan signed legislation to implement the agreement in September 1988, and the agreement was approved by the Canadian Parliament in December 1988. The agreement took effect January 1, 1989.

Trade legislation was an area of considerable debate in 1988 as the Administration and Congress completed work on an omnibus trade bill. President Reagan signed the Omnibus Trade and Competitiveness Act of 1988 in August of 1988. The legislation enhances continued efforts by the United States to open foreign markets. Most important, the legislation brought the Administration and Congress together in firm support of the Uruguay Round of Multilateral Trade Negotiations. In addition, while protectionist pressures in the United States remained strong in 1988, the Administration continued to oppose protectionist legislation that would threaten the world trading system.

3.2.3 The U.S. Market and Developing Countries

A key objective for strengthening the international trading system is the provision of open access to markets for fairly traded goods, particularly those from developing countries. The United States recognizes the importance of open and growing markets to help developing countries expand their economies and earn foreign exchange. The U.S. commitment to this policy is underscored by the fact that the United States continues to be a growing market for developing country exports.

U.S. imports from developing countries grew from $124.8 billion in 1986 to $149.7 billion in 1987. In 1987, the U.S. trade deficit with developing countries stood at $68.0 billion, compared with $54.1 billion in 1986. The importance of the U.S. market for developing country exports is illustrated by the fact that in 1986 the United States imported 43 percent of developing country exports to industrial countries, compared with 30 percent for the EC and 19 percent for Japan. With respect to developing countries' manufactures exports, the United States imports a far higher share--58 percent in 1986, compared with 24 percent for the EC and 9 percent for Japan.

The Generalized System of Preferences. In October 1984, the United States extended the U.S. Generalized System of Preferences (GSP) through mid-1993. The GSP program offers preferential duty-free treatment to developing countries to assist in their development and foster their integration into the world trading system. 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 and agricultural products. Textiles, apparel, footwear and leather products, as well as certain import-sensitive products, are excluded from GSP eligibility.

In January 1987, the United States completed a 2-year general review of the GSP program that encouraged improved protection of intellectual property rights; elimination of foreign trade barriers to U.S. goods, services, and investment; and improved policies with respect to "internationally recognized worker rights." The program accounted for approximately $16.3 billion in imports from developing countries in 1987 and for $8.5 billion in the first 6 months of 1988.

In January 1988, the President announced the graduation of four countries--Hong Kong, Korea, Singapore, and Taiwan--from the GSP program effective January 1, 1989. Because of their impressive advances in economic development and trade competitiveness, it was decided that these countries no longer required the benefits of the GSP program to compete in the U.S. market. On July 1, 1988, four other countries--Bahrain, Bermuda, Brunei Darussalam, and Nauru--were graduated from the GSP program because their per capita incomes exceeded the statutory limit for GSP beneficiaries.

The Caribbean Basin Economic Recovery Act. President Reagan's Caribbean Basin Initiative (CBI) is a 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 multifaceted development program of economic assistance and enlarged access to the U.S. market, which should catalyze expansion of local productive capacity in response to the opening of new markets for exports and assist the development of key sectors of CBI economies, including tourism.

The major elements of the CBI program are (1) duty-free treatment for a broad range of imports into the United States, (2) economic assistance directed at private sector development, (3) a commitment 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 of 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) 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. The U.S. Congress will be considering legislation during 1989 to enhance the trade coverage and strengthen certain other aspects of the CBI.

3.2.4 The Debt Crisis and Trade Finance

Many high-debt developing countries experiencing severe liquidity problems have found it necessary to ration scarce foreign exchange by curtailing imports and rescheduling both commercial and official credits. In this environment, many official and commercial lenders have taken steps to limit their exposure in developing countries by reducing the availability of credit for trade and investment. The U.S. Export-Import Bank, however, has continued to operate in a number of high-debt developing countries, especially those countries undertaking appropriate growth-oriented policies under IMF and World Bank programs. By continuing to provide financing in a number of countries, the Export-Import Bank assisted in financing imports necessary for growth and development. 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 developing countries that are undertaking appropriate policies for sustained growth.

3.3 External Indebtedness

External debt continues to be a major problem for developing countries and has required ongoing attention from the world community. The mutually agreed-on international strategy for addressing developing countries' debt problems is based on four fundamental factors:

- -- The importance of economic growth in easing debt burdens
- -- The need for market-oriented reform in debtor nations to achieve such growth
- -- The need for new debt and equity financing, and the return of flight capital, to support such reforms
- -- The importance of a case-by-case approach for addressing the individual needs of each debtor country

The framework for cooperative action that was initially proposed by Treasury Secretary Baker in October 1985 has evolved over time. A key development has been the addition of a "menu" of alternative, market-driven financial instruments to help new financing packages meet the interests of both debtor nations and the banking community. Menu items include innovative options for new lending as well as voluntary, market-based debt-reduction techniques. Such menus can help meet the diverse needs of debtors and creditors; attract capital to private enterprises through on-lending facilities, trade, and project loans; include "exit" vehicles for banks that wish to exit from new money obligations; and permit reductions in the level of debt and debt service through a variety of swaps.

This basic strategy was reaffirmed at the World Bank/IMF annual meetings in Berlin in October 1988. Its basic principles continue to guide U.S. policy and activities in this area.

Debtor recognition of the importance of market-led growth and individual countries' efforts to make the necessary reforms have made important contributions to resolving debt problems. The 15 major debtors have made significant progress under this approach:

- -- GDP growth averaged 3 percent in 1986-87, compared with negative 3 percent in 1983; growth for most has improved since 1985.
- -- Export earnings rose 13 percent and imports 9 percent in 1987.

-- The aggregate current account deficit for the group fell from $15 billion in 1986 to $9 billion in 1987.

-- Interest/export ratios declined by nearly one-third between 1982 and 1987.

-- Some $15 billion in debt/equity swaps since 1985 and $9 billion in other debt conversions have helped to reduce debt and debt-service burdens.

-- Some countries (Colombia, Chile) are close to returning to voluntary lending.

Creditors have been supportive of debtors' efforts to recover. The **IMF and World Bank** have provided general economic advice, have assisted in the development of growth-oriented programs, and have committed $25 billion in new financing in the past 3 years to support debtor adjustment efforts. **Commercial banks** have committed some $17 billion in new finance since October 1985, while rescheduling approximately $214 billion in outstanding debt, reducing spreads, and providing longer grace periods and maturities. These commitments included new money packages in 1987 for Argentina and Colombia. **Official creditors** in the Paris Club have rescheduled approximately $25 billion in outstanding debt and interest since October 1985.

Several events in FY 1988 were particularly noteworthy in the context of the debt problems of developing countries. These developments helped affirm and advance the strategy for addressing the needs of debtors and creditors.

-- A new **Compensatory and Contingency Financing Facility** was created within the IMF to strengthen the IMF's ability to safeguard growth-oriented programs from unforeseen adverse external developments--such as weaker commodity prices, lower export volumes, and sustained increases in external interest rates.

-- A **General Capital Increase** of $74.8 billion was negotiated for the World Bank, and the U.S. share was approved by Congress. This capital increase is necessary to sustain efforts to promote market-oriented reforms.

-- Agreement was also reached to revitalize the IMF's **Extended Fund Facility** on a case-by-case basis to support medium-term structural reforms.

-- A variety of **mechanisms** helped debtors achieve a **reduction in the level of their debt** and debt-servicing burdens. Among these programs are debt/equity swaps, debt/bond exchanges, debt buy-backs, and debt-for-development swaps. For example, between August 1985 and December 1988, nearly $6 billion of Chile's external debt (or 21.6 percent of total external debt) was converted into domestic equity. Some $9 billion in debt conversions occurred in other key debtor countries during this same period. The innovative debt/bond exchange orchestrated by Mexico and Morgan Guaranty may stimulate further development of voluntary market-based techniques.

Debtor governments can also use foreign exchange reserves or other resources to buy back their outstanding obligations. Chile, for example, used some $170 million from windfall copper earnings to buy back debt at around $0.56 on the dollar. By buying back its commercial bank debt at $0.11 on the dollar, Bolivia retired $253 million of its external obligations. In addition, Bolivia exchanged $64 million of commercial bank claims for $7 million of collateralized 25-year bonds and extinguished another $16 million through donation of claims. These mechanisms together reduced Bolivia's debt to commercial banks from $660 million to $327 million.

Debt-for-development swaps provide alternative methods for reducing debt while providing opportunities for donors or investors to promote social, educational, environmental, and other program. Thus far, Bolivia, Costa Rica, Ecuador, and the Philippines have engaged in these swaps to advance work to protect the environment.

-- A $5.2 billion **financing package for Brazil** was completed in November 1988. This package contains a variety of options for commercial banks to extend new money, purchase exit bonds, or convert debt into equity or other instruments. It is estimated that such conversions could reduce Brazilian debt by $18-$19 billion, or 25 percent, over a 5-year period. Negotiations were underway at the end of 1988 for new financing packages for Argentina, Colombia, and Venezuela; preliminary agreement was achieved on a Colombian package in January 1989.

-- Special attention has been directed at the **needs of the poorest countries** in the last year. A number of multilateral initiatives to ease the burdens on these countries have received U.S. support. The Paris Club has begun to implement the special terms for rescheduling the debt of the very poorest debtor countries that were outlined at the Toronto Summit in June 1988. Under this approach, concessional debt will be rescheduled at concessional interest rates over 25 years, including 14 years' grace. In rescheduling nonconcessional debt, creditors may choose from several options to reduce the debt-service burden:

- Concessional interest rates with shorter maturities
- Longer repayment periods at commercial rates
- Partial writeoffs of debt-service obligations
- A combination of these options

As mentioned above, the growth-oriented, market-based approach for addressing developing countries' debt problems was reaffirmed in September 1988 at the annual meetings of the IMF and World Bank. The international community also encouraged further development of voluntary, market-based techniques that increase financing or reduce the stock of debt without transferring risk from private creditors to the public sector.

3.4 Private Direct Investment

3.4.1 U.S. Government Investment Policy

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 government actions that impede or distort international investment flows. The Administration believed 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 skills, expand employment, and improve productivity. It is also an important source of capital and can stimulate international trade.

The United States opposes 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 Reagan Administration took steps to counter these distortive investment practices through such initiatives as the inclusion of trade-related investment issues in the Uruguay Round of Multilateral Trade Negotiations and the use of the Trade and Tariff Act of 1984 (discussed below in Sections 3.4.4 and 3.4.5).

The U.S. Government seeks to encourage developing countries to strengthen their investment climates in order to increase capital inflows. The U.S. Government strongly believes that domestic economic policy reform is 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 investment only act to discourage foreign investment.

3.4.2 Private Direct Investment Flows to Developing Countries

Several important changes have taken place in the pattern of foreign direct investment flows to developing countries during the 1980s: (1) the share of worldwide direct investment flows going to many developing countries has diminished, (2) shifts have occurred in the regional distribution of foreign direct investment, and (3) the share of direct investment flows representing services has grown.

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 1988 IMF *World Economic Outlook* indicated that during the 1980s, net direct investment flows to developing countries peaked at $18 billion in 1981, declined to about $10 billion in 1986, and are estimated at $16 billion for 1988.

Since the beginning of the 1980s, private investment flows to developing countries have declined. The main exceptions are Asian newly industrialized economies, which have become substantial recipients of foreign investment. This overall decline in foreign investment in developing countries occurred despite the fact that during the 1980s some developing countries have adopted a relatively more receptive attitude toward foreign investment as compared with policies of the previous decades.

The diminishing ability of many developing countries to attract foreign investment may be partially explained by the deteriorating investment climate and uncertainty in countries with high interest payments on their foreign debt. Also, the high debt-servicing needs caused some developing countries to limit foreign exchange availability for imported equipment or for profit repatriation, thus hindering the ability of foreign investors to conduct business abroad.

The United States has been the largest single source of direct investment in developing countries, accounting for approximately half of total flows from industrialized to developing countries. The United Kingdom and France have been the two other traditional sources. However, the relative importance of these three countries has declined in recent years, as Germany and Japan have significantly boosted their overall foreign direct investment in 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 strong possibilities for export-oriented production: Brazil, Hong Kong, Malaysia, Mexico, the Philippines, and Singapore. In terms of regional distribution, the majority of the United Kingdom's investment has been in the Commonwealth nations. France has invested primarily in Africa, while Japan's investments are mostly in Asia. Historically, U.S. investment has focused largely on Latin America. However, according to Commerce Department data, U.S. investment has grown steadily in Southeast Asia and has stagnated in Latin America since the beginning of the debt crisis in 1981. Africa, lacking a large domestic market or a well-trained labor force and possessing only limited natural resources, has seen foreign investment slow to a trickle. A number of Sub-Saharan countries are now experiencing negative growth and investment rates, caused to some degree by the collapse of commodity prices.

Foreign investment flows have generally been moving away from heavily indebted Latin American countries toward the South and East Asian countries.

The Latin American region has been hampered by significant economic disequilibria such as depressed demand, high rates of inflation, and instability of exchange rates, followed by import restrictions and limits on capital repatriation, practices resulting in an unstable investment climate in the region. This situation has been compounded by restrictions on investment in advanced technology sectors (e.g., in Brazil) or compulsory local content requirements (e.g., in Mexico). By contrast, Southeast Asia's growing share of foreign investment flows reflects not only the declining attractiveness of Latin America and Africa to foreign investors, but also the ability of these Asian countries to create a favorable investment climate.

3.4.3 Developing Country Policies Toward Foreign 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 countries were concerned with foreign control over specific economic sectors, natural resources, and major industrial enterprises. Some developing countries were wary of foreign investment because they feared foreign investors would engage in restrictive business practices, try to influence political decisions, or disregard critical social problems.

Since 1981, there has been a decline in foreign direct investment flows, commercial bank lending, and official development assistance to developing countries. This decline has prompted a growing number of developing countries to become more receptive to foreign direct investment. Realizing that foreign investors are important providers of capital, technology, and management skills, developing countries have begun to liberalize their investment policies in order 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. Policy changes in other countries have proceeded more slowly.

Nevertheless, many developing countries still believe that it is necessary to regulate investment in their markets by imposing entry barriers or restrictions on established foreign investments. These regulations govern exchange restrictions, 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 effect, some developing countries offer incentives such as direct subsidies, tax credits, or protected markets to foreign investors who agree to meet certain performance requirements. Such 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.

3.4.4 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 5.3) and U.S. support for multilateral private-sector-oriented institutions such as the International Finance Corporation (see Section 6.4). The Trade and Development Program (see Section 5.6) and Agency for International Development (A.I.D.) programs such as those of the Bureau for Private Enterprise (see Section 4.5) also facilitate private investment flows.

Bilateral Investment Treaty Program. The Bilateral Investment Treaty program is a major U.S. Government program designed to encourage the liberalization of the investment climate and to protect U.S. direct investment in developing 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 transfer of funds associated with investments

-- Dispute-settlement procedures, including international arbitration

On October 20, 1988, the U.S. Senate gave its consent to the ratification of bilateral investment treaties with Bangladesh, Cameroon, Egypt, Grenada, Morocco, Senegal, Turkey, and Zaire. On December 6, 1988, President Reagan signed the instruments of ratification. As of December 1988, five of the eight countries have ratified the treaties, and it is expected that all the bilateral investment treaties will be in force by mid-1989. Currently, the U.S. Government is considering new or pending treaty negotiations with several other countries.

Trade-Related Performance Requirements. The Administration's July 1986 policy statement on trade-related performance requirements 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 must originate in 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 identifiable and significant: these requirements distort trade and investment flows. These harmful effects result whether the requirements are placed on foreign investors from the United States or those from third countries. The U.S. Government's objectives are to prevent the further spread of trade-related performance requirements and to seek more discipline for requirements 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 further proliferation of trade-related performance requirements. The United States, through its embassies and contacts with private business, is carefully monitoring 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 general review of the U.S. Generalized System of Preferences.

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 (see also Section 3.2.1). 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 investments made prior to the 1984 Act. The Overseas Private Investment Corporation (OPIC) has policy guidelines with respect to performance requirements imposed on OPIC-assisted U.S. investment. The U.S. Government uses these tools as appropriate in pursuing its objectives with respect to trade-related performance requirements.

3.4.5 Investment and the Uruguay Round of Multilateral Trade Negotiations

At the September 1986 General Agreement on Tariffs and Trade (GATT) ministerial-level meeting in Punta del Este, Uruguay, 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 often interact and recognizes the importance of reviewing current GATT rules and establishing additional disciplines, as appropriate.

The Uruguay Round negotiating group on trade-related investment measures (TRIMS) met nine times as of November 1988. Discussions have centered on 12 TRIMS identified to date by various developed country contracting parties as being trade distorting; on the existing GATT articles' coverage of, and relevance to, the TRIMS listed; and on the ways in which, and the degree to which, these measures distort trade.

Many developing countries argue that these measures are essential for achieving their development objectives and that the decision to impose these measures is an issue of national sovereignty. Developed countries and some developing countries believe that TRIMS are, in essence, beggar-thy-neighbor policies in that exports are increased and imports reduced at the expense of other countries' trade balances. Reduced government interference and increased reliance on free market principles will lead to sounder, more sustainable development.

The Mid-Term Review agreement on the TRIMS negotiations reaffirms objectives set forth in the ministerial declaration given above and directs the TRIMS negotiating group to follow a work program reflecting those objectives.

3.4.6 Role of the Organization for Economic Cooperation and Development

In May 1984, Organization for Economic Cooperation and Development (OECD) ministers agreed to strengthen investment relations with developing nations. At the ministers' direction, OECD's Committee on Investment and Multinational Enterprises organized a round table in West Berlin during May 1986. 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 Committee on Investment and Multinational Enterprises held a second Round Table in February 1989 in Tokyo. This meeting brought together participants from international organizations, and from governments and the private sector of OECD countries and several developing countries. The Tokyo Round Table focused on the contribution of foreign direct investment to the alleviation of debt problems and the impact of technological innovation on foreign direct investment flows to developing countries.

The United States has supported these efforts in the hope that they will improve the international climate for market-determined investment flows, encourage greater developing country awareness of the economic benefits of foreign direct investment, and help in identifying and removing obstacles to foreign direct investment and in exploring market-oriented ways to increase investment flows to developing countries.

Also, in June 1988, the Development Assistance Committee (DAC) of the OECD met to discuss the role of the private sector in development, including foreign direct investment. As a result of these discussions, the DAC organized a series of country teams to examine foreign direct investment in developing countries.

3.4.7 United Nations Code of Conduct Relating to Transnational Corporations

The United Nations has had 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. However, it was agreed that insufficient progress had been made in narrowing existing differences to justify convening a new round of negotiations, although informal consultations are continuing to determine whether progress might be made at a later date.

The United States 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 practices 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 4
DEVELOPMENT: PROGRESS AND PROBLEMS

4.1 Food and Agriculture

A.I.D. Policy and Program Objectives. A.I.D.'s agriculture, rural development, and nutrition program is designed to increase the incomes of the poor majority and to expand the availability and consumption of food, while maintaining and enhancing the natural resource base. Increased income is the single most important determinant of growth in average food consumption among the poor (although growth in income does not always lead to improvement of the nutritional quality of the food consumed). The effort to increase rural incomes and sustain these increases requires economic policies that are conducive to economic growth and employment generation, programs that conserve and make efficient use of natural resources, and investments that improve rural infrastructure, government services, and human resources.

A.I.D. recognizes that families as well as nations obtain food either by producing it or by purchasing it in the marketplace--the domestic marketplace or the international marketplace. 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

-- Encourage market-oriented, efficient, low-cost production of food and other crops on small family farms on a sustainable basis

-- Promote private agricultural marketing and distribution systems for domestically produced and imported food

-- Incorporate sound nutritional and food consumption principles into the design and implementation of agricultural and rural development activities

-- Provide food assistance, including targeted food assistance, to people currently unable to exercise market demand, with particular attention to children and women in low-income families

In the context of this income-oriented strategy, A.I.D. supports agricultural systems that are productive, sustainable, and environmentally sound. This approach 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 also help to maintain the capacity of nations and small farms to produce food and other agricultural products over the long run. A.I.D.'s agriculture, rural development, and nutrition program provides about two-thirds of the funds that support A.I.D. activities designed to protect the environment and natural resource base.

Agriculture, rural development, and nutrition activities will absorb about 39 percent of the functional Development Assistance account in FY 1989 (see Section 5.1.1). The FY 1990 proposed budget will continue to support a program focused on increasing the incomes of the rural poor in order to achieve sustainable economic growth. This program focus recognizes that solutions to the problems of hunger, disease, illiteracy, infant mortality, and inadequate shelter must all be based on growth, but not growth at any cost. The natural resource base that makes agricultural growth possible must be protected for future generations.

Many countries that formerly received A.I.D. assistance have achieved increased income levels. As these economic success stories demonstrate, increased incomes stimulate consumption; poverty does not. Increased incomes translate into increased demand for both domestically produced and imported products (including agricultural commodities); poverty does not.

Agricultural Development and the Problem of Hunger. The World Bank estimates that in 1980 at least 340 million people in 87 developing countries--which is one-sixth of the people in these countries--did not consume the minimum calories needed to prevent stunted growth and serious health risks. Some 730 million people, or a third of the people in these 87 countries, did not consume the minimum calories needed for an active working life. Most of them--four of every five--live in low-income countries. Clearly, hunger and malnutrition continue to plague far too many people of the world.

Between 1970 and 1980 the *proportion* of people with inadequate diets declined. The sharpest declines occurred where per capita incomes were rising rapidly, that is, in East Asia and the Middle East. The declines were much less in the low-income countries than in the middle-income countries. In South Asia and Sub-Saharan Africa, the proportion of people with inadequate diets actually increased somewhat between 1970 and 1980.

During this period the total *number* of people with inadequate diets increased, largely as a result of population growth. At least 90 million more people were malnourished in 1980 than in 1970. This situation is unlikely to change dramatically unless the incomes of the poor can be increased.

The natural resource base on which sustainable agriculture depends--soil, water, forests, and rangelands--is increasingly vulnerable to depletion and degradation (see Section 4.3.2). Tropical forests are rapidly being converted to other uses, resulting in significant environmental and economic loss and decreased biological diversity. For example, in Latin America exclusive of Brazil, an area half the size of Virginia is deforested every year. And the world's topsoil is lost at the rate of 7 percent each decade. Semi-arid rangelands are becoming degraded and are showing increasing evidence of desertification. These problems are caused in large part by shortsighted agricultural and resource management practices as well as population pressure. The effects of these problems are extremely costly to arrest or reverse.

Although we are making progress in alleviating chronic hunger and malnutrition, the problem has not been solved. The extent to which hunger remains a problem will be influenced significantly by the level and distribution of income, by population growth, and by the nutritional status of the population at risk. If growth in per capita income accelerates, if the increased income is shared equitably, and if food selection emphasizes nutritional quality, then the number of hungry and malnourished people will decrease.

Even a small improvement in the energy content of the average national diet--say, a 2 percent increase over that available in the decade of the 1980s--could reduce the proportion of people with energy-deficient diets by 10 percent. But this will happen only if the poor share proportionately in the consumption of additional food made available by increased productivity. Agricultural development plays a central role in contributing to growth because most of the poor depend directly on agriculture for subsistence, employment, and incomes.

Increased farm productivity, broad-based income growth, and growth in agricultural imports tend to be mutually supportive: that is, increases in one lead to increases in the others. A University of Minnesota analysis of 48 low-income countries showed that

-- A 10 percent gain in farm productivity was clearly associated with an 11-12 percent gain in per capita income, on average

-- A 10-percent increase in per capita income was strongly associated with a 10-11 percent expansion in agricultural imports, on average

The lesson is clear and compelling. Advances in agricultural productivity in the poorest nations contribute to broadly based growth in income, which historically has been associated with the rapid expansion of imports, including both agricultural commodities and manufactured goods. The underlying factor that explains this process is increased incomes.

The United States has an interest in helping to alleviate hunger by increasing the incomes of the poor, not only because of the moral imperative to do so, but also because it can contribute to increased opportunities for U.S. exports. Many developing countries, in particular, are potential markets for agricultural exports, but this potential will be realized only to the extent these countries experience rapid and sustainable economic growth.

4.2 Human Resources Development

4.2.1 Education and Training

Priorities. In FY 1988, A.I.D. provided $122 million for education and human resources development under Development Assistance programs and $67 million under the Development Fund for Africa. At least $120 million in additional support to education and training was provided through Economic Support Fund programs. Most projects in other sectors also include training, extension, and staff development components.

Training (for senior managers, scientific and professional personnel, and mid-level technicians and administrators) is the major emphasis in education and human resources programs in all regions. Training accounts for almost half of Development Assistance funding for education and human resources, about 65 percent of Development Fund for Africa funding for education and human resources, and about 70 percent of Economic Support Fund expenditures for education and human resources programs.

In FY 1988, A.I.D. supported approximately 18,000 individuals for training in U.S. institutions, representing an annual investment of over $200 million. Approximately 45 percent studied in degree programs, about two-thirds of these in graduate programs, and about 55 percent in short-term technical training and professional upgrading programs.

Support for basic education, defined as primary and secondary schooling, is a growing emphasis for the Agency's education and human resources program. A.I.D. supports over 20 ongoing basic education projects, with annual obligations of $40-$45 million under Development Assistance, $15-$20 million under the Development Fund for Africa, and at least $20 million annually under Economic Support Fund programs. Other projects support related adult and nonformal education, training, and extension activities.

The Importance of Education and Training. People are the most important resource of any country. Human resources development through both general education and specialized training acts as a catalyst for economic growth and is an ongoing requirement of sustained development. Economic analysis confirms the significant contribution of education to national economic growth in developing countries. Further, many other positive effects on development occur, reflecting an increased ability of educated populations to make individual choices and participate fully in the institutions and processes of modernizing societies. As female education rates improve, fertility rates decline and infant mortality is reduced, and as general access to education increases, social as well as economic mobility increases and the flow of information of all kinds is facilitated. Consistently, countries that emphasize investments in education and training in their economic and social development strategies have outperformed countries that gave priority mainly to physical capital investments.

In the **wage economy**, basic education increases people's options for employment as well as for more specialized 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 are used more efficiently.

For **individuals and families**, household incomes and family welfare improve as education levels rise and more family members develop economic skills. As female education increases, the economic and social roles open to women expand; health, sanitation, and nutrition practices improve; and birth rates and infant mortality rates decline.

For **society** as a whole, basic education is the key to well-informed voluntary choices related to family size and other personal matters, to efficient functioning of market economies, and to full participation in modern social, economic, and political institutions.

Policy Objectives for Education and Training. Although most countries have made substantial progress, few have fully met their basic education needs, let alone their requirements for more highly trained and specialized technicians, scientists, managers, and administrators. In assisting countries to meet their human resource requirements, A.I.D.'s policy objectives are to improve and expand activities in the following areas:

- The availability and quality of basic schooling opportunities for children 6-14, with particular attention to strengthening the analytic, planning, and management capacities of key personnel responsible for the delivery of basic education.

- Skills training for adolescents and adults, with particular attention to 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 each sector. Participant training in the United States is an essential part of A.I.D. strategies to strengthen private and public sector institutions, including universities and other teaching institutions; to improve leadership in all sectors; and to effect technology transfer.

To achieve these objectives A.I.D. emphasizes (1) detailed assessment of education and training system capacities as the first stage of program planning, (2) policy dialogue to encourage efficient and equitable allocation of resources for education and training, (3) long-term program strategies to strengthen key institutions and to improve institutional analytic and management capabilities, and (4) technical assistance to help countries implement system improvements at both the classroom and the management and planning levels.

Selected Program Examples. In **Latin America and the Caribbean,** A.I.D. supports expansion and revitalization of school systems in Bolivia, Ecuador, El Salvador, Guatemala, Haiti, Honduras, and Jamaica. Enhancing the quality of basic education is also a priority in this region.

The ongoing Honduran Primary Education Efficiency project is an example of a quality-focused basic education project in the Latin America and Caribbean Region. The Honduran Ministry of Education, with A.I.D. assistance, initiated a nationwide program to produce and distribute textbooks for all children in the primary grades. A full set of textbooks and teachers guides for grade one, the first ever written entirely by Honduran writers, was produced in 1987 and distributed in early 1988. Over one million textbooks were distributed. In addition, interactive radio programs were developed to complement the textbooks and to augment classroom instruction. In 1988, Honduran writers completed texts and teachers guides for grades two and three, which will be introduced for the 1989 school year.

The largest program allocation in the Latin America and Caribbean Region is for the Central and Latin America Scholarship Program (CLASP), which supports increased training in the United States at the undergraduate and technical levels. The CLASP program includes the Central America Peace Scholars project, the Latin America and Caribbean Training Initiative II, the Andean Scholars Program, and the Presidential Training Initiative for the Islands Caribbean.

In **Asia and the Near East**, A.I.D. is initiating a major new education program to assist the Government of Pakistan to expand and upgrade the primary school system. The Pakistan Primary Education Development project provides training, technical assistance, and financial incentives to the Government for assistance to basic education in the Baluchistan and North-West Frontier provinces. The focus of this assistance is on policy change, particularly on improving community finance and administration of schools and increasing the enrollment of girls and rural children. The program will include development of instructional materials, school construction, improvement of teacher training, and technical assistance to strengthen administration and management systems. A program of basic research and development will complement and support these program components.

In addition, A.I.D. is providing resources for the expansion of basic education programs in Afghanistan, Indonesia, and Yemen, while in Bangladesh, Mission-level discussions for a new basic education program are in process.

A.I.D. also supports participant training for Bangladesh, Burma, Indonesia, Morocco, Nepal, the Philippines, Pakistan, and Yemen, as well as for regional programs for the Association of South-East Asian Nations and countries in the South Pacific.

In **Africa**, A.I.D. is supporting basic education projects in Botswana, Lesotho, Liberia, South Africa (program for disadvantaged South Africans), and Swaziland and is planning new programs in Ghana, Malawi, and Mali. In Mali, A.I.D. will join with other donors, including the World Bank, to implement significant policy reforms in the educational system. The objective of these policy changes will be to substantially increase the capacity and enhance the quality of the Malian basic educational system, through improvements in systemic efficiency and reductions in student dropout and repetition rates.

In addition to its basic education projects, the Africa Bureau's Human Resources Development for Africa project has successfully implemented training programs in more than 30 African countries.

Centrally funded A.I.D. programs support research and development and their application through Mission programs, with emphasis on instructional technologies, communications and learning strategies using radio and other media, the economics and financing of education, and strategies for education management and local resource mobilization.

The **Office of International Training** provides administrative, analytic, and field support for participant training programs, including administrative support for labor training and private sector training.

4.2.2 Population

Demand for Population Assistance. The United States has assisted voluntary family planning programs in developing countries for more than 20 years. During this time, population growth rates in many of these countries have declined. In other poor countries, growth rates have risen and are now as high as 3 or 4 percent per year.

Much of this recent and unprecedentedly large growth comes not from increases in birth rates but from declining death rates--from decreasing levels of infant mortality and increasing life expectancy, both by-products of development. Throughout the developing world, regardless of the rate of growth, the sheer number of people who now want to space or limit the number of their children has increased. The result is a continually growing demand for family planning services.

Providing basic services, expanding productive employment, increasing incomes, and managing the natural resource base are all critical to development. These challenges, daunting enough in themselves, are made more difficult by high rates of population growth. Recognition of this situation has led 59 A.I.D.-assisted countries to develop population policies aimed at achieving lower population growth rates.

Management of natural resources is critical to achievement of sustainable development. The relationship between rapid population growth and the environment is complex because of new technologies and the varying intensity of demands placed on natural resources. However, population growth clearly exacerbates some environmental problems. For example, in Burkina Faso, Haiti, and Nepal fuelwood shortages have been compounded by population pressure. Jordan is faced with the prospect of inadequate water supplies for both people and agriculture.

Policy Emphasis on Voluntarism. A.I.D. support for international family planning is based on three principles:

- -- The right of couples to choose the number and spacing of their children

- -- The positive impact birth spacing has on child and maternal survival

- -- The positive impact family planning has on reducing the number of abortions

A.I.D. population policy emphasizes strong support for voluntary family planning while firmly opposing coercion and abortion as a method of family planning. Family planning organizations with funds from A.I.D. must either offer a range of safe and effective contraceptive methods to couples or must refer them to other sources of family planning.

A.I.D. funds no abortion-related activities. The Agency does not fund foreign nongovernmental organizations that promote or provide abortion as a method of family planning. In countries where abortion is legal, bilateral agreements insist that U.S. funds be strictly segregated so that they are not used for abortion activities. Legislation passed in 1985 stipulates that no U.S. support can be provided to any organization that supports or participates in the management of programs involving coercive abortion.

Regional Highlights. The **Science and Technology Bureau's Office of Population** administers approximately half of A.I.D.'s population assistance through grants and contracts. The rest is provided through bilateral projects and some regional projects. In countries in Latin America, Africa, and Asia with no U.S. bilateral population programs, Office of Population support for private and international organizations constitutes the Agency's primary funding mechanism.

In all regions, A.I.D. is placing an increasing emphasis on the sustainability of development programs so that initiatives assisted by A.I.D. may eventually be continued by the developing countries themselves. Some regional highlights are presented below.

The **Asia and Near East Region** covers countries with wide variation in their levels of economic development and contraceptive use. Available data show that the percentage of married women using modern contraceptives ranges from 62 percent in Thailand to approximately 7 percent in Pakistan. Selected examples of USAID Mission programs in the Asia and Near East Region include the following:

- -- In Morocco, the Planning Support III project (1984-89) provides short-term technical assistance, training, commodities, and local-cost support to the Ministry of Public Health. This $19.8 million project uses an integrated approach to the reduction of Morocco's high rate of population growth and the improvement of the health status of women and children. The project provides door-to-door delivery of family planning and a package of maternal and child health services, including oral rehydration, breast-feeding/weaning food promotion, and immunizations against childhood diseases.

-- In Indonesia, A.I.D.'s Private Sector Family Planning project facilitates the involvement of the private sector in the National Family Planning Program and supports expansion of contraceptive sales. The project will allow expansion of family planning coverage at less cost to the national budget.

In the **Latin America and Caribbean Region**, A.I.D. emphasizes market-oriented solutions to help expand access to voluntary family planning. Most population assistance in this region goes to the private voluntary and commercial sector. Income generation and management efficiencies aimed at program sustainability are objectives in all countries. All bilateral programs in this region now include commercial sales of low-cost contraceptives using mass media and modern marketing approaches.

-- In El Salvador, A.I.D. is increasing private sector involvement in service delivery and focusing on rural outreach and private commercial initiatives.

-- In Bolivia, the selling of low-cost, high-quality contraceptive products through commercial channels provides increased access to modern contraceptives.

-- In Peru, contraceptive sales are being expanded through the private sector under the Contraceptive Social Marketing project.

Many **Sub-Saharan African** countries have recently adopted policy positions favoring lower population growth and supporting family planning. Throughout the policy development process, A.I.D. has engaged governments in collaborative analyses of the implications of population growth for national development and the health of mothers and children.

Various success stories are already emerging from Africa:

-- In Zimbabwe, A.I.D. support to the national family planning program has helped raise the level of contraceptive prevalence to 36 percent of couples of childbearing age.

-- In Nigeria, under the recently initiated A.I.D.-sponsored Family Health Services project, the Nigerian Government printed and distributed its population policy and gives it strong support in the news media. Over 150 federal, state, and local government officials have been trained in management; 3,500 commercial distributors are operating.

-- In Kenya, a bilateral project has encouraged over 40 private companies to provide family planning services to employees and dependents.

-- In Senegal, a French-speaking, predominantly Muslim country, a national population policy supporting family planning was adopted in April 1988. Through A.I.D.'s bilateral Family Health and Population project, 20,000 couples are receiving family planning services through 60 public and 17 private clinics. As of 1986, 11.3 percent of married women between the ages of 15 and 49 are using contraceptives, compared with 3.9 percent in 1978.

4.2.3 Health

A.I.D.'s Approach to Health and Child Survival. The major focus of A.I.D.'s health policy is on child survival activities. The objectives set out in the Agency's *Health Assistance* Policy Paper of December 1986 are as follows:

-- To reduce infant and early childhood mortality by increasing immunization coverage, improving infant diarrheal disease treatment, improving nutrition in young children, and improving birth spacing and maternal health

-- To reduce maternal mortality and morbidity

-- To use child survival interventions as the basis for building a more comprehensive health care system over time

-- To ensure that gains made in improving child survival and health are sustained

-- To develop new technologies and improved systems for delivery of child survival services

Increased emphasis on child survival objectives has required some reorientation of planning, management, training, and disease control projects. These activities, which have been supported as free-standing activities, are now being integrated with immunization, oral rehydration therapy, and other child survival activities. Other health policy objectives are being pursued indirectly, for example through policy dialogue to improve health sector efficiency and effectiveness.

A.I.D. health programs are carried out through U.S. private sector firms, private voluntary organizations (PVOs), universities, and other government agencies, such as the Centers for Disease Control. In implementing health and child survival programs, A.I.D. also collaborates closely with United Nations organizations such as the World Health Organization and the United Nations Children's Fund.

Health Sector Programs. The following examples of A.I.D.-supported health programs include health sector programs with child-survival components.

-- A.I.D. has had much success in improving health in Honduras. These successes include a 40-percent reduction in deaths from diarrheal diseases, achievement of immunization coverage of more than 80 percent among children under 5 years old, an increase in contraceptive prevalence to 35 percent among married women of reproductive age, a 1-month increase in average duration of breast-feeding, a 40-percent reduction in the number of malaria cases reported, and a reduction in infant mortality rate from 90 to 70 per 1,000 live births.

-- In Indonesia, A.I.D. has funded a series of health projects designed to extend coverage of primary health care and child survival interventions. These projects have contributed to substantial gains in oral rehydration therapy and immunization coverage and to a decrease in infant mortality. To ensure the long-term development impact of these investments, A.I.D. is addressing their financial sustainability through a major Health Sector Financing project. The project will emphasize private sector health insurance, use of private sector organizations in social marketing programs, and the shifting of family planning clients to private sector services. The project also will develop strategies for reducing public sector allocations to the hospital and pharmaceutical sectors and for shifting more public sector resources to programs that directly affect child survival.

-- Several centrally funded technical assistance projects provide support to field Missions in the design and implementation of health projects. The newly initiated Water and Sanitation for Health III (WASH III) project is designed to provide field assistance for water supply and sanitation activities. WASH project experience and studies have reconfirmed the importance of linking the availability of water supplies and sanitation facilities with health behaviors to achieve significant health outcomes.

-- The Improving Maternal and Infant Diet project promotes breast-feeding, develops and promotes weaning foods from local food products, educates mothers in appropriate infant feeding techniques, and provides lactation management training for health care professionals. Training in lactation management for physician-nurse teams in Guatemala, Honduras, Indonesia, Kenya, the Philippines, and Thailand has led to major changes in hospital practices (with resulting cost savings) and to substantial increases in the proportion of women initiating and sustaining breast-feeding.

-- The Operations Research in Primary Health Care (PRICOR) project supports operations research to study factors impeding the effective development and operation of health care systems. The project has developed tools to measure health worker performance in the individual tasks that together comprise delivery of the health and child survival services. To date, the project has examined child survival service delivery in eight countries.

In addition, A.I.D. supports research in such areas as the development and/or testing of vaccines for malaria, measles, whooping cough (pertussis), rotaviral diarrhea, cholera, group B streptococcal diseases, and streptococcal pneumonia; improved immunization technologies; improved diagnostics; and alternative formulations of oral rehydration solutions.

Child Survival Programs. A.I.D.'s work under the **Child Survival Fund** supplements and complements health assistance work carried out through the health account. A.I.D. and other donors have joined with host countries in the worldwide effort to achieve ambitious goals in both oral rehydration therapy and immunization. A.I.D. supports child survival activities in more than 50 countries in conjunction with private voluntary organizations, governments, other bilateral and multilateral donors, and the private sector. Some examples are presented here.

-- In Pakistan, child survival has become a national priority. With assistance from A.I.D. and other donors, immunization coverage has reached 80 percent of children aged 12-23 months, oral rehydration therapy use exceeds 35 percent, and the infant mortality rate declined by 14 percent between 1984 and 1986. Through support for the Government's Program for Control of Diarrheal Diseases and its Expanded Program on Immunization, the new Pakistan Child Survival project aims to reduce infant and child mortality rates by 25 percent and to institutionalize public health services and awareness programs to sustain these reductions.

-- In Haiti, the widespread use of PVOs has enabled the A.I.D. program to continue during times of disaster and political upheaval. Increases in immunization coverage and oral rehydration therapy access and use are due largely to efforts by more than 200 local PVOs that receive grants from A.I.D. through the Voluntary Agencies for Child Survival project.

Several centrally funded technical support projects also have been established to support child survival field activities.

-- The Resources for Child Health (REACH) project provides assistance in immunization and health financing.

-- The Technology for Primary Health Care II (PRITECH II) project is designed to support oral rehydration therapy and diarrheal disease control programs worldwide.

-- The new Maternal and Perinatal Health and Nutrition project will provide technical and training assistance and applied research worldwide to improve tetanus toxoid immunization coverage and will respond to field requests for assistance in treatment of iron-deficiency anemia, prenatal care, and improving home delivery practices.

-- The Communication for Child Survival (HEALTHCOM) project provides worldwide support for communication and social marketing efforts to increase the use of child survival practices such as oral rehydration therapy and immunization. HEALTHCOM assisted recently with a successful 7-week radio course sponsored by the National Child Survival Program (PREMI) in Ecuador, which was designed to reinforce child survival messages for mothers.

-- The Supply, Production, and Promotion of Oral Rehydration Therapy (SUPPORT) project promotes local manufacturing and distribution of oral rehydration solution through the private sector. In Ghana, for example, SUPPORT helped launch a new oral rehydration therapy program--bringing together existing public sector health education expertise and health services delivery personnel, unused private sector production capacity and distribution systems, donor supplies of raw materials, and assistance for product advertising.

-- The Demographic and Health Surveys project provides support for the evaluation of child survival programs. Reports of nationwide surveys in 20 countries were completed in 1988. These surveys provide countries with accurate estimates of infant mortality rates and coverage of key child survival services.

-- Reaching international goals for child survival will require continued public-private sector collaboration. An outstanding example of this kind of cooperation is the A.I.D. grant to Rotary International to support its PolioPlus program. This project is designed to control and ultimately eradicate polio worldwide and to deliver vaccines for other vaccine-preventable diseases of childhood.

4.2.4 Women in Development

A.I.D. Policy. A.I.D.'s policy on women in development is derived from what is now generally known as the "Percy Amendment," section 113 of the Foreign Assistance Act of 1961, as amended. In 1977, section 113 was restated to recognize women's roles in "economic production, family support, and the overall development process." It directed that the U.S. Government's bilateral assistance be administered so as to give particular attention to programs, projects, and activities that tend to integrate women into the national economies of developing countries.

The emphasis of A.I.D. policy is to focus on women without isolating them from the mainstream of development assistance. To this end, the Agency has begun to move away from women-specific projects. Experience has shown that a more effective strategy is to plan integrated projects that take women's roles into account in the initial project design to ensure balanced economic development.

Program Objectives. The A.I.D. Office of Women in Development (WID) has developed an expanded and more clearly defined portfolio to strengthen A.I.D. development objectives and to address growing Congressional oversight of the women-in-development program. The strategic plan details the primary goal and intermediate objectives, the areas of emphasis, and the activities necessary to implement the program.

The primary goal is to optimize the use and expansion of women's productive capacity to ensure sustainable national economic and social progress. The intermediate objectives are to provide intellectual and technical leadership; to increase awareness of, information about, and skills for addressing gender issues; and to help establish systems and procedures to ensure that gender issues are incorporated cross-sectorally in all Agency policies, programs, projects, research materials, and information systems and in multilateral and bilateral policy dialogue efforts.

Three areas of emphasis have been identified to help achieve the primary goal and intermediate objectives:

-- **Production, employment, and labor**: focus on women's productive roles, employment patterns, and participation in both formal and informal labor markets

-- **Economic policy adjustment**: engage in research and analysis of the impacts of various policy reforms on women's roles in production processes and formal and informal employment

-- **Human capital/social services**: analyze the ways in which socioeconomic factors such as education, nutrition, health, and fertility affect program and project outcomes and identify the ways in which households interact, divide responsibilities, allocate risk and resources, share burdens, organize their labor, and plan for the future

The actions taken in each area of emphasis will involve research, analysis, and strategy design; technical assistance; training and skill and capacity building; and information dissemination and communication.

The emphasis of the WID Office is on institutionalizing within the Agency the capability to address issues related to women's needs and talents, from project design through evaluation of project effectiveness. Further, in order to ensure the institutionalization of a women-in-development perspective in the Agency's programs, the Administrator has requested implementation of specific "Action Items." In addition, he has called for all A.I.D./Washington offices and bureaus and all USAID Missions to develop Action Plans for integrating women in the development process.

The FY 1989 foreign assistance appropriations legislation earmarked $5 million from A.I.D.'s Development Assistance accounts for women-in-development activities, in addition to funds otherwise available for such purposes. The legislation further earmarks $3 million of these funds as matching funds to support women-in-development efforts of USAID Missions overseas.

The Agency is also directed to ensure that country strategies, projects, and programs are designed so that the percentage of women participants will be demonstrably increased. The legislation makes it clear that A.I.D. should seek to ensure that its country strategies and, where appropriate, its projects and programs are designed so that the percentage of women who receive benefits approximates the proportion of women traditionally involved in the activity or their proportion of the population, whichever is greater.

Significant Activities in 1988. Efforts to institutionalize gender analysis skills among A.I.D. personnel during FY 1988 involved several core activities. Through a cooperative agreement between the WID Office and a U.S.-based international development organization, USAID Missions were able to obtain project-specific technical assistance to further enhance women's participation in mainstream development activities. A.I.D. produced a series of guidebooks on gender issues in development activities to familiarize its personnel with project design interventions that acknowledge women's role in development and that will help ensure that women's concerns are incorporated in all A.I.D. projects and programs. Also, the WID Office and the Bureaus for Africa and for Latin America and the Caribbean cosponsored regional workshops on gender resources for Mission personnel involved in project design. A third workshop is planned for the Bureau for Asia and the Near East in February 1989.

Other activities have included cooperation between the WID Office and the Bureau for Africa in developing means for including gender variables in economic policy reform programs. The Gender Resources Awareness in National Development (GRAND) project has developed a microcomputer-based simulation model that demonstrates the economic impact in various economic sectors of effective participation of women and girls. To further the work being done under A.I.D.'s Basic Research and Implementation for Developing Education Systems (BRIDGES) project, the WID Office funded a subproject to collect data on girls' enrollment, repeater, and graduation rates at the primary school level in 70 countries.

The WID Office is also working with the Assistance to Resource Institutions for Enterprise Support (ARIES) project being carried out by the Bureau for Science and Technology, which is designed to help increase the effectiveness of institutions that promote micro- and small-scale enterprises. Funding from the WID Office allows the addition to the technical assistance field team of a person whose role is to focus exclusively on women in the design of a project and to ensure their inclusion as participants and beneficiaries. Through a buy-in mechanism on a Bureau for Private Enterprise contract, the WID Office has access to a wide range of experts who are providing support to Missions on market-based economic growth strategies, on consolidation and institutionalization of private sector programs, and on the promotion of policy dialogue with foreign governments on public policy reforms that would encourage investment and jobs creation in the domestic economy.

As the critical economic role played by women in developing countries has become evident all over the world, gender awareness has become essential to modern development planning. A.I.D. is helping developing country leaders recognize valuable human resources that have been undertrained, undereducated, underemployed, and underutilized in their countries' development. Women are an integral part of a nation's economy, and successful development cannot be achieved without them.

4.2.5 Human Rights and Democratic Initiatives

Under section 116(e) of the Foreign Assistance Act of 1961, as amended, A.I.D. supports "programs and activities which . . . encourage or promote increased adherence to civil and political rights." In FY 1988, A.I.D.-funded activities worldwide under section 116(e) totaled $6.5 million, excluding the South African Human Rights Program.

The A.I.D. Human Rights Program is mainly concentrated in three areas: (1) strengthening host country legal systems, with an emphasis on the establishment and recognition of fundamental principles of law; (2) developing democratic principles, institutions, and organizations that promote human rights; and (3) providing technical electoral assistance in support of the right to vote, the right to secret ballots, and the right to a fair and accurate count of ballots.

In FY 1988, A.I.D. supported regional and country-specific **Central and Latin American** projects that (1) promoted education and research activities of the Inter-American Institute of Human Rights and provided electoral assistance to Chile through the Institute's Center for Electoral Assistance and Promotion, (2) continued a program of research on improving civil-military relations in Latin America and defining the appropriate military role in strengthening democracy, and (3) provided assistance in strengthening the skills of Central American print and broadcast journalists.

In **Africa**, A.I.D. provided human rights and democratic institution-building assistance to Botswana, Liberia, and Togo. Legal and human rights literacy programs were initiated in Lesotho, Nigeria, Senegal, Swaziland, Tanzania, Zaire, and Zimbabwe. Judicial training, legal literacy programs, updating of legal codes and court records, and legal library development activities were undertaken during FY 1988 in Chad, Liberia, Malawi, Mozambique, Rwanda, Sierra Leone, Uganda, Zaire, and Zimbabwe.

Similar programs were implemented in **Asia and the Near East**. Legal and human rights literacy programs were developed in Indonesia, Nepal, Pakistan, and Sri Lanka. A regional legal education and training program to strengthen the administration of justice in Egypt, Jordan, Morocco, Tunisia, and Yemen was initiated in FY 1988. In Southeast Asia, A.I.D. assisted the improvement of in-service training for judges and other court officers in Bangladesh, the Pacific Ocean Countries, the Philippines, Sri Lanka, and Thailand.

The **South African Human Rights Program** totaled $1.5 million in FY 1988. The program is designed to help the victims of apartheid and to promote economic, political, social, legal, and humanitarian efforts that foster a just society. Funds were allocated to support black-led and nonracial community groups that oppose, through nonviolent means, apartheid policies, as well as to provide direct legal assistance to political detainees, their families, and others.

Investigations of Human Rights Violations. In **Latin America**, most countries maintained open and correct relations with international organizations concerned with human rights. Special rapporteurs appointed by the United Nations Human Rights Commission continue to serve for Chile and El Salvador, and both governments cooperate with the work of their respective rapporteurs. Guatemala continues to cooperate with the work of the UN-appointed expert observer on human rights. International Committee of the Red Cross (ICRC) delegates are present in Chile, El Salvador, and Peru; in all countries, the delegates have access to prisoners upon request. The situation in Peru is complicated by the existence of "security zones," where all access is restricted and subject to control by the military. The Chilean Government has for some time now refused to cooperate with the Inter-American Human Rights Commission.

In **Africa**, Ethiopia expelled both the ICRC and UN relief agencies from the conflict areas in that country, where they had been engaged in a major relief effort. UN relief agencies were subsequently allowed to resume only a very limited presence, but the ICRC continued to be denied all access.

Ethiopia and Somalia, with the assistance of the ICRC, exchanged prisoners of war, but neither country allowed ICRC visits to regular places of detention. Chad continued to deny ICRC access to most of the prisoners of war held as a result of the Chad-Libya conflict. South Africa/Namibia continued to allow ICRC access to some groups of political detainees and deny access to others. ICRC delegates visited a number of places of detention in Burundi, Togo, and Zaire, but the governments of Burundi and Zaire occasionally denied access to certain political detainees. Because of last year's outburst of ethnic violence in Burundi, A.I.D. is carefully monitoring the situation there to ensure that assistance is directed toward needy recipients, whatever their ethnic background. In response to international concern about the situation in that country, the Government of Burundi cooperated with visiting representatives of the Organization for African Unity and stated that it would not impede any UN fact-finding mission if such a mission were requested.

Specific Actions Taken Because of a Country's Human Rights Practices. Assistance to the Government of Haiti has been terminated as a result of flagrant human rights abuses before and after the scheduled November 1987 election. Humanitarian assistance continues to be provided through private voluntary organizations and other nongovernmental organizations, consistent with the provisions of section 563 of the FY 1988 Foreign Assistance Appropriations Act.

In Chile, there now seems to be greater recognition of human rights, as demonstrated by measures taken prior to the October 1988 plebiscite and the conduct of the plebiscite itself. However, because of continued unevenness in the human rights situation, such as continuing incidents of individual human rights abuse and lack of cooperation with the Inter-American Human Rights Commission, A.I.D provides only limited assistance to the Chilean Government. This assistance is directed only toward basic human needs.

4.3 Energy, Environment, and Natural Resources

4.3.1 Energy

Program Description and Objectives. The primary goal of A.I.D.'s energy program is to promote the development of cost-effective, efficient, reliable, and environmentally sound energy systems in developing countries in order to provide the energy necessary for broad-based economic growth. To achieve this goal, A.I.D. (1) promotes pricing and other policy reforms that improve the efficiency of energy use and ensure the economic viability of energy enterprises; (2) encourages the adoption of environmentally sound energy production technologies and the implementation of policies and regulations that minimize the environmental problems associated with energy production and use of all forms of energy; (3) assists developing countries in expanding the role of the private sector in the development, production, management, and distribution of energy supplies, including fossil fuels, electric power, and renewable resources; and (4) supports activities to expand the availability and reliability of energy for rural development.

A.I.D. project assistance focuses on expanding electricity supplies, promoting energy efficiency and conservation, and increasing supplies of energy for rural development. Assistance is provided in the form of capital assistance, training and institution building, technical assistance, research, and technology transfer. Capital assistance is provided in only a few countries but constitutes a large share of total A.I.D. energy funding. In addition to its support of specific energy projects, the Agency is actively engaged in policy dialogue on energy-related issues, including energy price reform and the development of incentives for greater private sector involvement in the energy sector.

The World Situation for Energy. Developing country demand for commercial energy, fossil fuels, and electricity has grown dramatically during the last two decades and is expected to continue to grow at rates of about

4-5 percent a year in the medium term. In 1970, energy consumption in developing countries accounted for only 10 percent of world consumption of fossil fuels and electricity. It is expected that developing countries will account for as much as 25 percent of world consumption by the year 2000. This growth is the result of development itself; the movement to more energy-intensive industry, agriculture, and transport; and the shift from traditional fuels such as charcoal, fuelwood, and agricultural wastes to more efficient forms of energy.

The dramatic oil price increases of the early and late 1970s focused world attention on the costs of energy and created incentives for efficiency improvements. The soaring cost of energy imports accounted for an increased share of export earnings and the diversion of scarce foreign exchange from other development priorities. In countries such as the Dominican Republic, India, and Kenya, energy imports accounted for more than 50 percent of export earnings in 1984. Since then, world petroleum prices have fallen, but the foreign exchange burden faced by many A.I.D.-assisted countries remains a significant factor. In addition, the increasing demand for electricity to meet development needs continues to drain development budgets, frequently accounting for 25 percent of budgetary outlays.

The decisions developing countries make in order to meet rapid increases in energy use will have important environmental consequences. During the last year, the environmental costs associated with the production and use of energy have received increasing attention. The use of fossil fuels contributes to global environmental problems such as acid rain and ozone depletion. In addition, many scientists predict that increasing levels of carbon dioxide and other gases will result in global warming.

A.I.D. Energy Activities. The Agency energy program focuses on three principal areas: expansion of electric power supplies, increased energy efficiency, and greater use and availability of renewable energy resources.

Expansion of electricity supplies. Electricity supplies are inadequate in most A.I.D.-assisted countries. Power shortages frequently limit industrial production and export earnings. While the largest cities are generally served by central electricity grids, large segments of the population, especially those living in rural communities and smaller cities, often do not have access to electricity. Estimates suggest that only 10 percent to 20 percent of the population in A.I.D.-assisted countries have access to electricity.

A.I.D. is actively involved in implementing the recommendations contained in the 1988 Report to Congress entitled *Power Shortages in Developing Countries*. Efforts to increase electricity supplies focus on three principal approaches: development of private sector power suppliers, rural electrification, and, in a few countries receiving Economic Support Funds, provision of new generating facilities.

Expanding the involvement of the private sector in power generation offers one of the more significant opportunities for increasing the availability and reliability of power and for improving electrical system efficiency. Many A.I.D.-assisted countries have already initiated efforts to change their policies to encourage private suppliers to develop new generating facilities that can sell power directly to national grids or to smaller decentralized systems (Costa Rica, Dominican Republic, Indonesia, Pakistan, the Philippines, and Thailand). While this is a relatively new approach, a large part of the Agency's future energy efforts will be devoted to activities in support of expanding private power facilities.

A.I.D. and its predecessor agencies have provided support for rural electrification programs since the mid-1960s. Rural electrification projects are now being supported in Bangladesh, Guatemala, Pakistan, and the Philippines.

Energy efficiency. For the last decade, A.I.D. has been actively involved in providing technical assistance and policy advice to promote energy efficiency in more than 25 countries. Efficiency improvements offer a proven and cost-effective way for developing countries to increase energy availability, lower energy costs, and improve the profitability of energy-consuming enterprises. In addition, energy efficiency improvements reduce the environmental costs associated with the production and use of energy.

Renewable energy. A.I.D. is actively involved in the development of a range of renewable energy resources, including fuelwood, biomass energy, and new technologies based on wind, solar, and small hydro energy sources. Efforts are underway to encourage the use of biomass residues, such as sugarcane stalks, rice husks, and wood wastes, for energy. Such systems help developing countries meet their energy needs while increasing the economic viability of agricultural production systems and helping reduce carbon dioxide emissions generally associated with increased energy use.

4.3.2 Environment and Natural Resources

Program Description and Policy Objectives. The central objective of A.I.D.'s environment and natural resources policy is to help developing countries conserve and protect their environment and natural resources and to promote long-term economic growth by managing exploited resources for sustainable yields. This objective is achieved through bilateral and multilateral policy dialogue, technical assistance, public and private institution building, and support for appropriate basic and applied research.

Global environmental issues such as climate change and ozone depletion underscore the critical need to address environmental problems in both developed and developing countries. Projected changes in global climate are likely to have adverse effects on the poorest countries of the world. A rise in sea level would be particularly devastating to the many coastal countries receiving A.I.D. support. In critical tropical regions forests are being lost at a rate of 15 hectares per minute. Fires set to clear the forests may be responsible for 10 percent of global human-caused emissions of carbon dioxide, the principal greenhouse gas. Desertification, soil erosion, and pollution all have global impact.

The local effects of environmental degradation are equally severe. Environmental degradation threatens food production, health, and economic expansion in many developing countries. Promoting the proper management of natural resources in developing countries is essential to A.I.D.'s goal of promoting broad-based economic growth. The resulting benefits of an improved global environment accrue to all countries.

A.I.D. ensures that all its development assistance activities are environmentally sound through formal review of all projects. In addition, A.I.D.'s environmental program funds a wide variety of discrete projects and components of larger projects designed specifically to enhance the environment. Such projects, combined with environmental review of all Agency activities, promote effective natural resource management and environmental protection critical to economic growth in recipient countries.

In response to the accelerating threat of mass extinctions of millions of species, A.I.D. has focused attention in recent years on protecting tropical forests and preserving biological diversity, including the protection of wildlife and plant genetic resources in preserves and parks, as well as the generation of alternative sources of income to reduce pressure on wildlands. These concerns are integrated, when possible, into other elements of the Agency's environmental program, including (1) promoting sound land use planning and increased cooperation between key government ministries; (2) promoting reforestation, agroforestry, and watershed management; (3) improving water quality in both urban and rural areas; and (4) encouraging private sector participation in profit-generating programs that conserve natural resources.

International Cooperation on the Environment. A.I.D. will continue to encourage international cooperation in addressing global environmental threats. Such cooperation is increasing as the potential effects of environmental degradation are better understood. For example, scientific evidence that synthetic chemicals were causing depletion of the earth's protective ozone layer brought the international community together to reduce the production of those chemicals. As of September 10, 1987, the Montreal Protocol on chlorofluorocarbons has been signed by 46 nations and ratified by 31, including the United States.

The United Nations Environment Program and the Organization for Economic Cooperation and Development (OECD) are independently working on efforts to control the international movement of hazardous wastes. Further evidence of the growing awareness of the environmental problems that increasingly threaten economic progress, and the need to tackle these issues in a worldwide partnership, is the Intergovernmental Panel on Climate Change, which includes representatives from developed and developing country governments, nongovernmental organizations, and the public.

A.I.D. is working through the OECD to increase bilateral cooperation on issues of environment and development. A.I.D. has also contributed to the development of a draft international convention to protect biological diversity and will continue to monitor closely international biodiversity efforts.

A.I.D. Activities. A.I.D. plans to support research designed to improve our understanding of the likely effects of climatic change on A.I.D.-assisted countries and to assess local sources of increasing levels of carbon dioxide emissions. The Agency continues to support agricultural research to develop new varieties of crops more resistant to drought and temperature variation. A.I.D.'s support for forestry assistance and for increases in the efficiency of energy use in A.I.D.-assisted countries will help to reduce global growth of carbon dioxide emissions.

A.I.D. is increasing efforts to promote the safe use of agricultural and industrial chemicals. The Bureau for Latin America and the Caribbean is working with the Conservation Foundation to help countries address problems of environmental pollution, hazardous wastes, and industrial chemicals. The Bureau is planning to contract with the Department of Agriculture for a long-term pest and pesticide management adviser to increase the Bureau's ability to provide expert advice on safe pesticide use and integrated pest management.

With the U.S. Environmental Protection Agency, the Bureau for Asia and the Near East has supported a major training project to improve the capacity of Asian pesticide officials to regulate imported and locally formulated pesticides. The Agency is supporting international efforts to control locusts, which have reached or threaten to reach plague proportions throughout the Sahel, North Africa, and Asia. The Agency has prepared a draft environmental assessment on locust control to ensure human health and safety and provide safeguards against spraying ecologically sensitive areas.

4.4 Institutional Development and Housing and Urban Development

4.4.1 Institutional Development

By "institutions," A.I.D. does not refer only to large-scale formal administrative structures. Local formal organizations such as community self-help groups and local private voluntary organizations often are more flexible and more resilient than are large bureaucratic organizations. While the word "institution" also refers to markets, systems of land tenure, legal conventions, and the like, much of A.I.D.'s institutional development effort is focused on improving the policies and procedures of organizations.

Effective public and private institutions are essential to a country's self-sustaining capacity to solve critical development problems. It is A.I.D. policy to help developing countries establish and strengthen their institutions in support of mutually agreed, high-priority development objectives. A significant share of A.I.D.'s resources has been devoted to helping institutions in developing countries function efficiently and live within their means.

A.I.D. believes that effective institutions on all levels enable developing countries to marshal their own developmental resources; increase incentives for investment and lead to greater participation in development; provide individuals with opportunities to acquire the skills, resources, and services necessary to increase their productivity, income, and well-being; and above all, increase the likelihood that A.I.D. and host country resources will foster development that can be sustained after external assistance is withdrawn.

To the extent feasible, A.I.D.'s investments should stimulate a process of investment and reinvestment by beneficiaries themselves that continues after the termination of donor involvement. The development of appropriate private institutions in developing countries is especially important in activities involving agriculture, finance, and the health sector, where overreliance on public institutions frequently has resulted in the inefficient allocation of scarce resources.

Several of the Agency's policy statements address issues of institutional development. For example, a concern for sustainability infuses all of A.I.D.'s project and program assistance activities; in this area, A.I.D. is guided in part by its policy on recurrent costs. A.I.D.'s policy requires that institutions in developing countries work toward complete coverage of all recurrent costs by the time that donor assistance has been withdrawn.

The basic tenets of A.I.D.'s policy on institutional development are as follows:

-- Institutional development should be addressed as an issue in all projects (it should not be seen as a separate activity of its own).

-- Institutional development must address weaknesses in complementary activities (e.g., institutional weaknesses in agricultural extension systems may inhibit the effectiveness of interventions designed to strengthen agricultural research institutions).

-- Institutional development must encourage flexible institutions that can adapt to changing local and national needs (well-functioning markets typically support this objective).

-- Institutional development must provide for the appropriate, active participation of clientele, from needs assessment to project or program implementation and evaluation.

-- Institutional development must permit individuals increased access to essential resources and opportunity to apply those resources in rewarding ways (this frequently implies reducing the role of government and increasing that of the private sector).

-- Options for institutional development involving the private sector must be fully considered.

This last tenet warrants some elaboration. A.I.D.'s experience suggests that, given prevailing conditions in most developing countries, private sector institutions generally are less costly, more responsive to clientele, and more innovative and efficient than public enterprises. There are, of course, broad exceptions in areas such as basic public administration, major transportation infrastructure, and certain aspects of agricultural research, public preventive health measures, and basic schooling. But, where there is a choice, A.I.D. encourages and supports institutional development options in the private sector and avoids activities that explicitly or implicitly preempt viable private sector options.

In FY 1988, A.I.D. drafted guidelines on institutional analysis to be incorporated in program and project design documents. These guidelines should soon be incorporated in the relevant handbooks to provide direction on the practical application of A.I.D.'s policy statement that institutional development should be addressed as an issue in all projects. The guidelines identify the following five key issues:

-- The organizational characteristics of the institutions involved (e.g., their mandates, internal structure, budget, interest groups)

-- The internal dynamics of decision-making within the institutions involved (including informal as well as formal decision networks)

-- The political context and its impact on the effectiveness of the institutions involved

-- Organizational constraints (e.g., resource constraints, financial and human; factionalism; sociocultural constraints)

-- The organizational capability and willingness of the institution to participate in the activities appropriate to the program or project (e.g., planning, implementation, resource management, research, evaluation)

Every program and project paper will be required to address these issues through proper institutional analysis and to present recommendations on how best to address the problems that are identified. Every analysis should emphasize the sustainability of the institutions involved and should consider alternatives, especially private institutions.

One important aspect of the guidelines for the institutional analysis of nonproject assistance emphasizes the institutional dimensions involved in successfully effecting policy reform in developing countries. These guidelines will alert A.I.D. officers charged with designing nonproject assistance to the importance of thoroughly understanding the institutions involved in implementing policy reforms. To the extent that the institutions themselves are targets of reform, are the political implications adequately anticipated? (For example, a parastatal formerly in charge of providing goods or services may be substantially transformed as its functions are turned over to the private sector.) Can such institutions effectively implement the proposed policy reforms? These and related questions will have to be raised in the course of program design.

A.I.D. is expanding its understanding of the interrelationship between efforts to develop specific institutions and the larger policy context affecting those institutions. For example, A.I.D. continues to explore the effects of poor financial policies on the sustainability of financial institutions. The development community in general is now aware that negative real interest rates, targeted credit allocations, and overly generous refinancing by the central bank (all designed ostensibly to favor specific groups of borrowers believed to need special credit assistance, such as small farmers and manufacturers) frequently lead to "rent-seeking" behavior, corruption, low loan recovery rates, decapitalization of credit funds, and inadequate mobilization of private savings. These effects, in turn, undermine the prospects for building long-term sustainable financial institutions in developing countries.

The solution clearly is to devote additional resources to the financial institution itself only after financial policies have been suitably reformed. However, it has often proven quite difficult for developing countries to effect the necessary reforms. The statement that policies can be changed "with the stroke of a pen" does not adequately suggest how difficult it often is for that pen to move across the page.

4.4.2 Housing and Urban Development

Under the dual pressures of rapid population growth and historically unprecedented rates of urbanization, developing countries are undergoing profound changes in their social and economic structures. By early in the next century, urban populations in developing countries will exceed those in rural areas. One of the most dramatic outcomes will be the continued growth of "mega-cities"; by the year 2000, at least a half dozen cities in developing countries will have populations exceeding 15 million people. Less dramatic, but equally important, is the extraordinary growth of smaller towns and cities.

The challenges presented by urbanization are an immediate concern of the highest priority, a fact that has been recognized by various studies on economic assistance and by the Congress. In its FY 1988 legislative report, the House Subcommittee on Foreign Operations directed A.I.D. to prepare a report on urbanization in developing countries that assesses its impact on economic development and explores the implications for future A.I.D. assistance programs. The interim report to Congress concludes that Congress and the Agency need to reexamine the emphasis of foreign assistance in light of the accelerated urban growth occurring in developing countries.

Although urbanization creates problems in developing countries, urban places in developing countries are also the locus of off-farm employment opportunities and the centers in which much of the growth and restructuring of the economy must occur. Economic activities in urban places already generate half of their countries' gross domestic product, a proportion that is predicted to rise over the next decade. The efficiency with which urban problems are managed will be one of the key factors affecting economic development in the 1990s.

A.I.D.'s **Office of Housing and Urban Programs** has worked for the past 25 years on the world shelter problem, and in recent years on broader problems related to rapid urbanization. It has concluded that adequate, if minimal, shelter can be made available for all people in a reasonable period of time if the right policies are pursued. The right policies rely on individual initiative, market forces, and the private sector to produce the housing, with government providing the policy framework and basic infrastructure. Affordability, cost recovery, decentralization of authority, and appropriate standards are essential elements.

Governments must capitalize on the energies of the informal sector and can help make the activities of that sector more efficient and consistent with the overall urbanization process. They can adopt development standards at levels that are appropriate to the economy and the resources of the people. By providing infrastructure in strategic locations, they can ensure that minimal service levels are maintained and help guide urban growth. They can pursue economic policies that ensure the availability of credit at reasonable terms. They can also provide clear land title or less formal rights of occupancy that will give low-income families security of tenure, collateral for home improvement loans, and incentives to invest in their housing. These actions, by giving families a stake in their community, will promote greater social and political stability.

Policies concerning land, infrastructure, and credit are likely to be most effective when they rely on the private sector and individual initiative and when the government places the responsibility and authority for developing and implementing urbanization and shelter programs as close as possible to the people who are most affected by them. Municipal decentralization requires both the transfer of fiscal and management responsibilities to local governments and the systematic training of local officials to improve their management skills and expand the pool of skilled public administrators to a size commensurate with need. It is particularly important that governments make resources available for the effective management of secondary cities and market towns. Such urban places play a critical role in the development of regional economies, which are usually based on agriculture and have a major impact on the health of the national economy.

A.I.D.'s Office of Housing and Urban Programs operates through seven Regional Housing and Urban Development Offices located around the world, which provide advice on urban issues to all interested USAID Missions. The principal resource available for capital assistance is the Housing Guaranty Program, under which about $125-$150 million in U.S. private sector loans are made annually. The office also manages $5 million in centrally grant-funded technical assistance research and training activities and comanages significant amounts of Mission resources.

Through these programs, the Office engages in policy dialogue with developing country governments on key issues and works to strengthen institutions in the relevant sectors. A major emphasis is the training of counterparts in relevant public and private sector organizations. Through this training, which takes place locally and in the United States, a cadre of policymakers and program implementers is developed that can improve the country's capacity to address its shelter and urban development needs.

A.I.D. measures success by the degree to which policies are adopted that improve the ability of developing countries to use available resources to manage urbanization and produce affordable shelter for low-income families over the long run. The policies that are critical to achieving these goals are those that focus on the needs of low-income families, improve the functioning of financial markets, rationalize development standards, increase cost recovery, decentralize government authority, and allow land markets to operate efficiently. Success in these sectors will substantially enhance the economic development potential of developing countries as they inexorably become more urbanized.

4.5 Private Enterprise Development

Program and Policy Description. A.I.D.'s private enterprise program is based on the fact that developing countries that have encouraged expansion of their private sectors through the expansion of free market systems have experienced self-sustaining economic progress and broadened the opportunities for individuals to make economic choices. Productive private enterprises generate increased income, purchasing power, employment opportunities, and overall economic growth.

The overriding intent of A.I.D.'s private enterprise policy is to promote the establishment of a climate conducive to private sector activity in developing countries, not to finance individual business entities per se. The objective is the establishment of viable, competitive markets and the expansion of private enterprise in order to reach the ultimate goal of economic growth. The private enterprise program is diverse, encompassing activities in policy reform, financial markets development, microenterprise development, privatization, and investment and export promotion. The policy framework and significant actions for some of these areas are discussed below.

The private enterprise program is Agencywide, involving all bureaus and overseas Missions. USAID Missions are responsible for developing and implementing most of the Agency's private enterprise activities. A.I.D.'s Bureau for Private Enterprise and Bureau for Science and Technology, as well as the private sector offices of A.I.D.'s regional bureaus, provide technical assistance to Missions in private enterprise strategy development, financial markets, privatization, and micro- and small-enterprise development.

In FY 1988, A.I.D. obligated $630 million of Development Assistance and Economic Support Funds in support of private enterprise development. The amount remains relatively unchanged for FY 1989 but is proposed to rise to $776 million in FY 1990. These figures include obligations for policy reform activities as well as direct assistance to private enterprise and the use of the private sector in delivering traditional government services. Local currency generated through other A.I.D. programs provides additional resources for private enterprise development activities.

Program Objectives and Significant Actions. Effective financial markets are indispensable to the pursuit of sustained, broad-based economic growth. A.I.D.'s **financial markets development** policy promotes a system of financial markets that is integrated and relatively undistorted and that relies heavily on competitive financial institutions and on policies that facilitate competition. This system should be capable of effectively mobilizing private savings, allocating such savings to investments yielding maximum returns, and maximizing the participation of the general populace.

Financial markets development is needed to enable a country's financial structure to move beyond short-term lending with high collateral requirements to the effective mobilization and channeling of capital to finance business expansion. Examples in this critical area include reform of Bolivia's banking system, design of a debt/equity swap program for the Dominican Republic, establishment of a Kenyan capital markets authority, and improvement of Indonesia's stock market.

The Agricultural Finance Group at Ohio State University, through a series of cooperative agreements with the Bureau for Science and Technology, has carried out extensive research on rural financial sector development. The project's research on subsidized credit, market-oriented interest rates, and savings mobilization has substantially expanded the Agency's understanding and capability to promote rural finance in A.I.D.-assisted countries.

In FY 1988, the Bureau for Private Enterprise initiated a new Financial Sector Development project that helps countries identify and reduce policy, regulatory, institutional, and behavioral barriers to effective functioning of financial markets. Over the next 5 years, the project will focus on strategic planning for Missions, research and development to test new concepts and instruments, and information dissemination, and will provide on-call technical assistance.

The Private Sector Revolving Fund, established by Congress in 1983 to provide a flexible, businesslike mechanism for expanding the availability of commercial credit to developing country private enterprises, promotes a market approach to development assistance. Projects may benefit U.S. firms, either as joint venture partners or as exporters of services and technology. The fund is particularly active in Indonesia, the Philippines, and Thailand. In FY 1989, Congress gave direct guarantee authority to the fund, thus significantly expanding its potential impact. Under this new guarantee authority, each dollar of fund assets will be leveraged to support eight dollars of developing country investment.

Microenterprise development assistance is an important element of A.I.D.'s private enterprise development strategy. By increasing incomes of the poor, providing opportunities for advancement of microentrepreneurs, and encouraging indigenous investment, such assistance makes an important contribution to broad-based economic growth. A major objective of the program is to help people with limited or no access to capital achieve a level and quality of business activity that will permit increased access to formal financing and technical services and expand productive employment and incomes.

In FY 1988, A.I.D. initiated a microenterprise development program to focus on increasing the incomes of the poor. The Administrator appointed an advisory committee made up of representatives from private voluntary organizations (PVOs), credit unions, business, and academia. The agency also established special policy guidelines to ensure that the resources provided under A.I.D.'s microenterprise development program benefit the many and diverse business efforts of the poor.

The Assistance to Resource Institutions for Enterprise Support (ARIES) project of the Bureau for Science and Technology assists individual USAID field Missions to strengthen intermediary institutions that support small enterprises and microenterprises. Among the activities supported are sector surveys in Costa Rica, El Salvador, and Honduras that have resulted in recommendations on more effective means of delivering credit and technical assistance to small businesses.

In FY 1990, the Bureau for Science and Technology's newest project, Growth and Equity Through Microenterprise Investments and Institutions (GEMINI), will continue to help developing countries strengthen local institutions and research key issues in this sector and help USAID Missions with projects serving the very smallest enterprises.

Through U.S. and local PVOs, assistance in the form of credit, technical assistance, training, and innovative guarantee mechanisms has been provided to small enterprises and microenterprises in Chad, the Dominican Republic, the Eastern Caribbean islands, Ecuador, Haiti, Honduras, Liberia, Malawi, and Paraguay.

The Agency views **privatization** as an important vehicle to facilitate the adoption of free markets, that is, as a way to encourage private enterprises to compete with each other and to increase employment and incomes and to improve standards of living. Privatization is an important mechanism for increasing the quality of goods and services available to consumers and for spreading ownership and the benefits of economic growth. The determination of which activities are appropriate to the public and private sectors should be made on the basis of economic efficiency, innovation, and incentives. A private enterprise operating in a truly open and competitive environment is usually more likely to meet goals of economic efficiency and growth than is a partially or wholly state-owned enterprise.

Several dozen privatizations have occurred with A.I.D.'s support, including many successful ones in Costa Rica, Honduras, and Jamaica. These efforts have spread the ownership of major developing country corporations to tens of thousands of individuals, mobilized large amounts of local capital, and reduced the subsidy burden on developing country governments.

In 1985, the Bureau for Private Enterprise established a Center for Privatization that provides technical assistance for privatization under its Divestiture and Privatization project. The center has contributed to many of A.I.D.'s privatization activities by helping developing countries plan and carry out the transfer of state-owned and state-controlled enterprises and functions to the private sector. The center has sent more than 150 consultants to work on some 95 projects in 45 countries and has privatized entities in the agribusiness, airline, finance, telecommunication, and manufacturing industries, among others.

A.I.D. trade development policy encourages developing countries to view international trade as a key instrument in the process of achieving broad-based, sustained economic growth and to place greater reliance on complementary domestic competitive markets that support more open trade policies. A.I.D.'s **investment and trade promotion** policy focuses on building long-term private enterprise ties between developed and developing countries, consistent with U.S. trade liberalization objectives.

A.I.D. has implemented programs to promote an environment conducive to private investment for the production of nontraditional exports. A wide range of business services (e.g., marketing studies, joint venture brokering, overseas promotion offices) has been provided to local and foreign investors and exporters. These groups have been instrumental in the passage of legislation in developing countries to stimulate investment and exports, the establishment of export-processing zones, and the adoption of other measures aimed at the development of a favorable business climate.

A.I.D. has been involved in investment and export promotion in Latin America for many years. Successful investment promotion centers include the Costa Rican Coalition for Development Initiative (CINDE) in Costa Rica, the Investment Promotion Council (IPC) in the Dominican Republic, the Salvadoran Foundation for Economic and Social Development (FUSADES) in El Salvador, and the Entrepreneurial Research Development Foundation (FIDE) in Honduras.

USAID Missions in the Asia/Near East Region are also making trade and investment a major focus of their private enterprise programs. In Egypt, A.I.D. has assisted the private sector to develop programs oriented to the promotion of U.S.-Egyptian trade and investment. Similar programs are underway in Indonesia and Thailand. USAID Missions in Jordan, Tunisia, and Yemen support trade and investment activities that offer the host country and

U.S. private sector entities the opportunity to seek out areas of mutual interest supportive of A.I.D.'s development mandate.

Future Efforts. In addition to expanding its efforts in financial markets, microenterprise, privatization, and trade and investment in the future, A.I.D. is initiating a new program to encourage the sustained delivery of social services through the private sector. This initiative for the private provision of social services is based on the belief that sustaining the delivery of social services is key to achieving broad-based growth.

This new program combines A.I.D.'s traditional leadership in the delivery of social services to poor families with its more recent experience with private indigenous markets. Activities funded under this program will be directed toward developing private local capabilities through such activities as policy and technical assistance to government agencies on contracting out public services; assistance in creating or improving social service entities; policy development and technical assistance that encourage private employers to provide social services; assistance to private indigenous companies in developing local production, warehousing, and distribution capabilities; and assistance in creating, improving, or expanding the capability of private insurance companies and other prepaid private health providers.

4.6 Disaster and Refugee Assistance

4.6.1 Disaster Assistance

The Office of U.S. Foreign Disaster Assistance (OFDA) is responsible for providing relief assistance to foreign nations affected by natural or human-caused disasters and providing nonrelief assistance in contingency planning, training, preparedness, warning, and mitigation. Disaster assistance manifests the humanitarian concern of the people of the United States. The goal of this program is to save lives and reduce the suffering of victims in foreign countries stricken or imminently threatened by disasters. Property loss and subsequent economic and social disruptions associated with disasters are a major deterrent to third world development goals of fostering broad-based economic growth and sustaining the viability of development assistance programs. OFDA collaborates with bureaus within the Agency to reduce the threat to development posed by natural hazards.

Significant Actions in FY 1988. In FY 1988, OFDA responded to 60 disasters, the greatest number of disasters ever declared within a 12-month period. In addition, OFDA provided relief assistance in 12 countries in response to prior-year disaster declarations. OFDA administered a program totaling $77.9 million and responded to critical needs around the world, including these:

-- Floods in Argentina, Bangladesh, Benin, Brazil, Burkina Faso, China, Costa Rica, Dominican Republic, India, Lesotho, Niger, Paraguay, and Sudan

-- Devastating fires in Burma and the Philippines

-- Earthquakes in India and Nepal

-- Severe storms in Haiti, Jamaica, the Philippines, and Vanuatu

-- Epidemics in Benin, Guinea-Bissau, Mali, Mauritania, and Sudan

-- Civil strife and displaced persons in Burma, Mozambique, Panama, Somalia, Southern Africa, Sudan, Thailand, and Uganda

-- Insect infestations in Algeria, Chad, Ethiopia, Mali, Mauritania, Morocco, Niger, Senegal, Sudan, and Tunisia

-- Drought in Botswana, Ethiopia, Madagascar, Niger, Uganda, and Zambia

-- Landslides in Papua New Guinea and Turkey

The significant demands for assistance in FY 1988 and new opportunities to improve hazard analysis, contingency planning and preparedness, and warning and mitigation systems led OFDA to establish nonrelief program priorities in terms of available resources and likely threats of disaster. This process has resulted in a pragmatic strategy that takes into account regional and country priorities, as well as the social, political, and economic aspects of disaster response. OFDA's nonrelief strategy depends increasingly on cofunding commitments by A.I.D.'s geographic bureaus and other donors to disaster-related activities. An intensive review is currently taking place to assess the relative merits of the components of OFDA's nonrelief program.

Future Activities. OFDA requested $25.0 million for international disaster assistance in FY 1989. The proposed program includes $19.0 million for worldwide disaster relief (including stockpiles) and $6.0 million for nonrelief activities such as preparedness, mitigation, and early warning. OFDA's emergency relief coordination capability, which supports the primary goal of saving lives and reducing suffering, will be more successful in FY 1989 because of improved regional and global communications systems dedicated to disaster coordination, full implementation of incident management, and close cooperation with and support from Department of Defense regional commands. Declared disasters will continue to be managed by OFDA, using knowledgeable A.I.D./Washington regional bureau personnel and field Mission expertise to help implement the most appropriate disaster responses and to lay the foundation for sustained development. In FY 1989, OFDA expects to increase its use of satellite-based portable communications for decision-making between disaster sites, USAID Missions, and Washington, including on-site disaster data transmission and response coordination.

The FY 1989 requirement of $19.0 million for emergency relief, rehabilitation, and stockpiles is necessary, given increased annual international disaster assistance obligations during each of the last 5 years. The incidence of disasters worldwide is demonstrably escalating, and vulnerable populations are increasingly threatened by the vagaries of nature and the cruelties of civil strife and war.

The nonrelief program activities conducted by OFDA have led to considerable progress: greatly improved host country disaster management, longer lead times for early warning, and implementation of a number of practical mitigation techniques. FY 1989 will see increased emphasis on public awareness of disaster threats and means of avoidance, as well as close intergovernmental cooperation as a result of the International Decade for Natural Disaster Reduction.

In FY 1989, OFDA will also work in close cooperation with the World Bank, the Organization of American States, the Pan American Health Organization, Partners of the Americas, and the reinsurance industry to improve disaster planning based on probability assessments of major disaster occurrence. OFDA will strive to incorporate new techniques such as earthquake hazards mapping and real-time earthquake location analysis into its regional disaster planning strategies and disaster simulation exercises.

At the host country level, high priority will be placed on encouraging self-reliance and sound financial and budgetary planning for emergency operations, equipment maintenance, and disaster relief response. Efforts will also be made to build disaster preparedness and mitigation strategies into development goals and objectives at the host country level by ensuring that vulnerability to hazards is considered in the A.I.D. project planning cycle of the regional bureaus' programming process. This process will lead to greater sustainability of A.I.D.'s development programs and will help protect host country economic gains and development investments.

4.6.2 Refugee Assistance

Developing countries in Africa, Near and East Asia, and Central America provide asylum for the majority of the world's more than 12 million refugees. International assistance in maintaining and supporting these large populations must recognize the refugees' often profound effects on the ecology and resources of the host countries and consider the development needs of those host countries as well.

Africa. There was a dramatic jump in the number of African refugees in 1988. Civil warfare in southern Sudan, northern Somalia, and Mozambique and ethnic violence in Burundi were the major factors behind the approximately 1.1 million increase in refugees last year. As of October 1988, it was estimated that about 4.4 million Africans required protection and assistance.

Up to 400,000 Somalis fled to eastern Ethiopia beginning in June 1988, and most remain there as a result of fighting between the Somali National Movement and Government forces in the north. Ethiopia is also providing asylum on its western border for some 333,00 refugees from southern Sudan who have fled their country's devastating civil war. Ethnic violence flared up in Burundi in August 1988, causing an exodus of approximately 46,000 Hutus into Rwanda. And in Mozambique, the brutal civil war continues to force civilian flight into land-poor Malawi. As of late 1988, over 610,000 Mozambicans had taken refuge there--over 200,000 more than the previous year.

This upsurge in the total number of refugees was offset somewhat by the continuing pattern of repatriation to Ethiopia from both Somalia and Djibouti and, in Central Africa, the return of refugees to Chad and Uganda. It is estimated that over 125,000 of the 185,000 refugees who fled Chad have returned. Repatriation to Uganda from Zaire and Sudan is largely complete. In addition, almost all refugees who fled Burundi in August 1988 have returned to their homes.

The United States maintained its leadership role as the single largest financier of international assistance to African refugees, though its share of total assistance dropped. Through the Bureau for Refugee Programs, the U.S. Government provided funding for some 24 percent of the Africa program of the U.N. High Commissioner for Refugees (UNHCR) and 18.4 percent of the Africa program of the International Committee of the Red Cross (ICRC). Under the Migration and Refugee Assistance appropriation and the President's Emergency Refugee and Migration Assistance Fund, the U.S. Government contributed $60.5 million to the UNHCR and $19.5 million to ICRC for CY 1988 programs.

Afghan Relief. Afghans in Pakistan and Iran continue to constitute the single largest group of refugees in the world. Some 5 million Afghans have been forced abroad as refugees, while an estimated several million have become displaced persons in their own country. Since the initial influx in 1978, both the Government of Pakistan and the international community have been generous in providing for the needs of refugees. The United States has been a major supporter of the relief effort, providing over $600 million since 1980 to the UNHCR, the World Food Program, and several other international agencies and private voluntary organizations.

With the Soviets fulfilling their obligation for complete withdrawal of their armed forces by February 15, 1989, it is anticipated that most of these refugees from Pakistan and Iran will return to their homes. Though hardy and self-reliant people, the Afghans will need large amounts of assistance to help them resettle, restore their homes and farms, and subsequently reconstruct their country, which has been devastated by 9 years of brutal war. The United Nations has undertaken the important humanitarian effort to assist in the return of the refugees and the reconstruction of Afghanistan. The United States expects to continue playing a major role in assisting Afghan refugees as they return.

Near East. Continuing strife in the region generated new requirements for relief for refugees and displaced persons. The U.S. Government contributed $61.3 million to the United Nations Relief and Works Agency

(UNRWA) for Palestinian Refugees in the Near East during FY 1988, plus a special $2 million contribution for UNRWA's emergency medical program in the West Bank and Gaza. UNRWA programs provide education and medical care to over 2 million Palestinian refugees in the Near East.

Southeast Asia. The United States and other donors support the efforts of the UNHCR and private voluntary agencies to provide care for more than 150,000 Indochinese in the first-asylum camps of Southeast Asia. Additional assistance is provided to the United Nations Border Relief Operation for over 310,000 Cambodians in asylum on the Thai-Cambodian border. Thai villagers affected by the refugee influx are assisted through a $5 million Economic Support Fund program.

4.7 Evaluation

A.I.D. has long recognized the importance of evaluation for developing and managing its activities and for assessing the lessons learned from past projects, which can help 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. encourages developing countries to use evaluation as a tool in effective project design and implementation and as an element in improving institutional capability to manage development activities.

A.I.D.'s evaluation function is driven by the information needs of planners and managers of assistance programs. This focus on utilization encourages evaluators to be responsive to short-term operational requirements while also ensuring that longer term planning and policy formulation benefit from accumulated knowledge and experience. Recent trends in the evaluation of U.S. bilateral assistance include the following:

-- 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, cash transfer programs, policy reform programs, and other types of nonproject activities and has conducted initial studies of macroeconomic policy reform in Central America and the Caribbean.

-- Evaluations are being designed to cut across traditional evaluation categories and topics and include studies of program and project sustainability, microenterprise initiatives, women in development, participant training, technology transfer, and the development of effective local institutions in the public and private sectors.

-- The role of evaluation is being extended into more comprehensive planning processes beyond the level of specific project and nonproject activities. This extension of the evaluation function 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 the establishment of clearer strategic benchmarks for measuring program performance (particularly in the areas of rural income, food availability and needs, and natural resources, and in connection with the new Development Fund for Africa).

-- Evaluations are being planned with greater attention to the timing of key program and project decisions in order to provide evaluation information when it is most useful.

-- Innovative evaluation methods are being used to assess interim impacts while projects and programs are still being implemented.

-- A.I.D. has issued new guidance on evaluation that builds on these recent efforts and that emphasizes the use of evaluation as a management tool for improving the performance of projects and programs in promoting development objectives. To supplement the recently revised *A.I.D. Evaluation Handbook* (April 1987), A.I.D. has prepared a more comprehensive "Guide to Evaluation Practice in A.I.D.," which will be published in 1989. A.I.D has also published extensive guidance on specific evaluation methods, such as rapid appraisal techniques, focus-group interviews, and key informant interviews.

The synthesis of evaluation findings and lessons is particularly important for policymakers, planners, and project designers as a basis for comparing and selecting alternatives. A.I.D. has emphasized the analysis, synthesis, and dissemination of development experience by combining its central evaluation, information, and statistical offices into a single unit, the Center for Development Information and Evaluation. A.I.D. is also vigorously applying existing requirements that call for the consideration of evaluation lessons and the planning of management information systems in new project and program designs in order to establish a firmer basis for future monitoring and evaluation efforts.

CHAPTER 5
U.S. PROGRAMS TO PROMOTE GROWTH

5.1 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 1987, FY 1988, and FY 1989 are shown in Table 5-1.

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:

Table 5-1. U.S. Bilateral Economic Assistance Obligated or Estimated, FY 1987-1989
($ millions)

Budget Category	FY 1987 Actual	FY 1988 Actual	FY 1989 Estimate
Development Assistance (functional accounts plus Sahel Program and Development Fund for Africa)	1,651.6	1,828.2	1,799.4
Economic Support Fund	3,912.3	3,020.8	3,638.0
Subtotal A.I.D.	5,563.9	4,849.0	5,437.4
PL 480 Food Aid (Titles I, II, III)	1,463.0	1,478.8	1,481.9
Total Appropriated Funds	7,026.9	6,327.8	6,919.3
Housing Guaranty Program[a]	145.5	125.0	125.0

[a]U.S. Government guarantees rather than expenditures of appropriated funds; estimates.

-- 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 country's position on human rights

-- The extent of the country's efforts to acquire nuclear weapons

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 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 development of human resources and institutional capabilities and the conduct of research on food and agricultural problems

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 1988 the United States allocated to low-income (International Development Association-eligible) developing countries 23 percent of all funds (Development Assistance and Economic Support Fund) available to country programs (see Table 5-2). Regional allocations under Development Assistance, Economic Support Fund, and PL 480 are shown in Table 5-3 for FY 1987 and FY 1988. In FY 1988, the Asia/Near East Region and the Latin America and Caribbean Region each received about a 22-percent share under Development Assistance, while the Africa Region received about 30 percent. The Asia/Near East region absorbed nearly 83 percent of the Economic Support Fund in FY 1988, with the majority of that amount going to Egypt and Israel. Of the PL 480 total, Asia/Near East accounted for 47 percent, Africa 20 percent, and Latin America and the Caribbean 16 percent.

5.1.1 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. (Refer to Chapter 4 for more detail concerning U.S. policy and programs in the activities funded under the Development Assistance 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, two elements are emphasized:

Table 5-2. A.I.D. Functional Development Assistance (DA--includes Sahel Program and Development Fund for Africa) and Economic Support Fund (ESF) Programs by Economic Level of Recipient Country, FY 1987-1989
($ millions)

GNP per Capita	Fiscal Year	Total	DA	ESF
Greater than $806	1987	2,439.8	244.2	2,195.6
	1988	1,987.1	254.8	1,732.3
	1989	2,083.7	260.0	1,823.7
Between $411 and $805	1987	1,494.8	261.6	1,233.2
	1988	1,140.4	277.5	862.9
	1989	1,672.7	254.9	1,417.8
Between $0 and $410	1987	825.2	432.6	392.6
	1988	916.9	527.2	389.7
	1989	802.0	468.9	333.1
Interregional and Regional Programs	1987	806.7	728.4	78.3
	1988	799.9	766.5	33.4
	1989	876.2	813.2	63.0
Total	1987	5,566.5	1,666.8	3,899.7[a]
	1988	4,844.3	1,826.0	3,018.3[a]
	1989	5,434.6	1,797.0	3,637.6[a]

Note:The data given above include Israel, Egypt, and Turkey. (ESF allocations to Israel were $1,200 million in FY 1987, 1988, and 1989. The corresponding figures for Egypt were $819.6 million, $717.8 million, and $930 million; for Turkey, $100 million, $32 million, and $60 million.) Israel and Turkey are in the top group and Egypt is in the next group in terms of GNP per capita. All 1989 data are estimated.

[a]GNP per capita figures were unavailable for Lebanon. ESF obligations for Lebanon of $12.6 million in FY 1987, $2.5 million in FY 1988, and $0.3 million in 1989 are excluded from this table. DA obligations were $2.2 million in FY 1988 and $2.5 million in FY 1989.

Source: GNP per capita data from 1988 update of World Bank *Atlas*, 1987.

Table 5-3. Obligations for A.I.D. and PL 480 Programs, by Region, FY 1987 and FY 1988

Budget Account and Region	Amount ($ millions) FY 1987	Amount ($ millions) FY 1988	Percentage FY 1987	Percentage FY 1988
Development Assistance (functional accounts plus Sahel Program and Development Fund for Africa)				
Africa	396.7	553.6	24.3	30.3
Asia/Near East	427.9	388.5	25.9	21.3
Latin America and Caribbean	436.7	415.9	26.4	22.7
Interregional	390.3	470.2	23.6	25.7
Total	1,651.6	1,828.2	100.0	100.0
Economic Support Fund				
Africa	164.8	39.7	4.2	1.3
Asia/Near East	2,927.9	2,495.9	74.8	82.6
Latin America and Caribbean	818.5	484.8	20.9	16.0
Interregional	1.0	0.4	0.0	0.0
Total	3,912.2	3,020.8	100.0	100.0
PL 480 (Food for Peace)				
Africa	244.3	287.9	16.7	19.5
Asia/Near East	622.7	690.0	42.6	46.7
Latin America and Caribbean	243.5	241.2	16.6	16.3
Interregional[a]	352.5	259.7	24.1	17.6
Total	1,463.0	1,478.8	100.0	100.0
Housing Guaranty Program[b]				
Africa	17.9	0.0	12.3	0.0
Asia/Near East	100.0	90.0	68.7	72.0
Latin America and Caribbean	27.6	35.0	19.0	28.0
Interregional	0.0	0.0	0.0	0.0
Total	145.5	125.0	100.0	100.0

[a]Includes 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.

[b]Guarantees only, not appropriated funds.

-- Improving economic policies in developing countries to remove constraints to food production, marketing, and consumption

-- Expanding the role of the private sector in developing countries in agricultural and rural development and the complementary role of the U.S. private sector in assisting this expansion

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 the incidence of 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 the public health programs of developing countries. A.I.D. continues to provide support for a broad range of indigenous institutions involved in health promotion, 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. Training for administrators, managers, and scientific and professional personnel has grown substantially. The private sector's need 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 **Private Sector, Environment, and Energy Account** addresses cross-sectoral problems. Activities funded from this account are particularly important to the successful implementation of A.I.D.'s activities to promote the role of the private sector in development. The multiple objectives of programs funded under this 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, a significant portion 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 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 5-4 presents allocations for FY 1987 and FY 1988 under Development Assistance, Economic Support Fund, and PL 480.

5.1.2 Economic Support Fund

The Economic Support Fund is a flexible assistance tool for promoting economic and 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 funds, Economic Support Fund resources

Table 5-4 Development Assistance, Economic Support Fund, and PL 480 Program Obligations, FY 1987 and FY 1988

Budget Account and Region	Amount ($ millions)		Percentage	
	FY 1987	FY 1988	FY 1987	FY 1988
Development Assistance				
Functional Accounts				
Agriculture, Rural Development and Nutrition	686.9	561.1	31.1	23.7
Population Planning	267.2	198.5	12.1	8.4
Health	168.1	130.0	7.6	5.5
Child Survival Fund	75.0	66.4	3.4	2.8
AIDS	--	30.0	0.0	1.3
Education, Human Resources Development	163.1	122.3	7.4	5.2
Private Sector, Environment, and Energy	210.9	153.3	9.6	6.5
Subtotal Functional Accounts	1,571.2	1,261.6	71.2	53.2
Sahel Development Program	80.6	4.9	3.7	0.2
Development Fund for Africa	--	549.9	0.0	23.2
Subtotal Functional Accounts plus Sahel Program and Development Fund for Africa	1,651.8	1,816.4	74.9	76.6
Other[a]	553.5	555.7	25.1	23.4
Total Development Assistance	2,205.3	2,372.1	100.0	100.0
Economic Support Fund	3,912.3	3,020.8	51.6	44.0
Total A.I.D.	6,117.6	5,392.9	80.7	78.5
PL 480, Titles I, II, III (Food for Peace)	1,463.0	1,478.8	19.3	21.5
Total Obligated Funds	7,580.6	6,871.7	100.0	100.0

[a]American Schools and Hospitals Abroad, Private Sector Revolving Fund, International Disaster Assistance, Miscellaneous Prior Year Accounts, Operating Expenses, Foreign Service Retirement Fund.

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 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 goods 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 1988, $3,020 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 $1,200 million to Israel to address inflation and balance of payments problems. It also included $718 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 1988 included Pakistan ($334 million), to bolster its stability and security, and several Latin American and Caribbean nations (in particular Costa Rica, $90 million; El Salvador, $195 million; Guatemala, $80 million; and Honduras, $85 million). Many of the same themes are expected to continue in FY 1989, particularly the emphasis on Egypt and Israel, Central America, Pakistan, the Philippines, and Turkey.

5.2 Other U.S. Bilateral Economic Assistance

5.2.1 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. While the humanitarian and relief aspects of the U.S. food aid program continue to be important, it is the potential for assisting in longer term economic 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 for long-term, low-interest loans to friendly developing countries for the purchase of U.S. agricultural commodities. These commodities 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 food 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.

The Food Security Act of 1985 revamped subsection (b) of **Section 416 of the Agricultural Act of 1949** to authorize the Secretary of Agriculture to furnish eligible U.S. surplus commodities for carrying out programs of assistance in developing countries through (1) programs similar to 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 may include (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 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 together 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 (l) 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 for development activities that will 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 1988, agreements were signed in 26 countries to provide 4.2 million metric tons of commodities valued at $766.8 million. These agreements contain specific development objectives that the importing country agrees to implement.

Under PL 480 Title II in FY 1988, 1.6 million metric tons were provided for regular and emergency PVO and bilateral programs. Shipments in support of the WFP's 1988-89 target totaled 260,000 metric tons in commodities and $20.0 million for transportation costs. U.S. Government emergency contributions to the WFP provided an additional 230,000 metric tons valued at nearly $57.0 million. Under section 416 availabilities, (1) 940,000 metric tons of commodities valued at $165.2 million were provided to programs approved for regular and emergency activities; (2) over 416,000 metric tons valued at $83 million were channeled through the WFP pledge; (3) 60,000 metric tons valued at $6.0 million were authorized for Food for Progress shipments; and (4) 960,000 metric tons valued at nearly $158 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 ($940 in 1988).
- -- 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 1988 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.

5.2.2 Board for International Food and Agricultural Development

The Board for International Food and Agricultural Development (BIFAD) serves as an advisory group to the Administrator of A.I.D. on the mobilization and use of U.S. university resources in development programs. BIFAD was created under Title XII of the Foreign Assistance Act. The basic purpose of the 12-year-old Title XII amendment is to marshal the unique resources of U.S. agricultural universities in support of U.S. agricultural development assistance programs. The continued and growing interest in using these resources is manifested by the 62 Title XII institutions that currently hold contracts with A.I.D. to conduct 97 projects in 57 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 goal is to be achieved 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. 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.

Challenges for the 1990s. Meeting the needs of the 1990s will present expanded opportunities and challenges for the Title XII community. The basic tasks BIFAD set out to accomplish--institution building and technology development--are far from finished. Increasingly, the tasks have two foci. In some areas, especially in Africa and the Caribbean, basic technical assistance is still needed. In the more advanced developing countries, however, institution-building strategies must rely on a more collaborative relationship. Human resource development needs continue unabated.

For the 1990s, six major challenges face the Title XII partnership:

-- **Institutional development in Sub-Saharan Africa**: join forces to strengthen six to eight strategically located regional universities in Africa. The major focus would be on developing graduate programs to meet Africa's needs in developing sustainable environmental systems for food and fuel production.

-- **Professional growth of agricultural scientists in the developing world**: foster communication and collaboration between U.S. and developing world scientists, particularly the application of leading-edge technologies to development problems.

-- **Fuller utilization of modern research tools in solving development problems**: encourage the application of biotechnology to the problems of alleviating hunger and engendering economic growth.

-- **A long-term, in-depth study of development constraints and programs**: give more focus to development programs, using the strengths of the university more systematically in conceptualizing, analyzing, and evaluating country, regional, and sectoral problems.

-- **The use of communication media in technology transfer and extension systems**: pioneer new approaches to technology transfer for extension systems around the world, using the opportunities offered by the spread of modern communication media.

-- **A worldwide focus on sustainable agriculture**: provide intellectual leadership to the world scientific community in the development of sustainable agricultural technologies. The more fragile environments pose a special challenge.

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, A.I.D.'s program gives high priority 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** involve 38 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 workshop and other seminars and meetings. In addition, 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.

5.3 Overseas Private Investment Corporation

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.

Foreign Investment. 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 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 included the pursuit of efforts to discourage government policies that inhibit or distort international investment flows. In this regard, OPIC created a public/private sector ad hoc group--the Investment Policy Group--to provide interested developing countries with concrete suggestions on ways to improve their business environments and attract more desirable types of investment. The group's efforts were initiated in January 1988 with a visit to Nigeria. This was followed in June 1988 by a visit to Kenya by an OPIC representative.

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 3.4 for further discussion of private direct investment.)

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.

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 investment 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 various 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. In addition, OPIC insures and finances long-term cross-border operating and capital leases to encourage developmentally beneficial transfers of U.S. technology and capital equipment.

More recently, OPIC instituted business income coverage that protects U.S. companies from income losses caused by political violence that interrupts operations. In the face of the continuing debt crisis, OPIC has also fostered debt-to-equity swaps by providing political insurance for transactions involving the creation of new investment projects. Furthermore, OPIC has begun to play a larger role in furthering privatizations of state-owned enterprises of developing countries through insurance coverage, as well as financing.

OPIC also provides **financial services**, including 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 the 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 addition to assisting traditional investments, OPIC provides medium-term debt financing to establish or expand distributorships overseas. More recently, OPIC developed an innovative financing program involving a unique growth fund generating equity or quasi-equity investments. This concept is being implemented initially in Sub-Saharan Africa. Furthermore, OPIC received Congressional approval during its FY 1988 reauthorization to undertake, for the first time and on a limited basis, direct equity financing. This pilot program will be tested in Sub-Saharan Africa and the Caribbean.

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.

Highlights of FY 1988. In FY 1988, OPIC insured or financed 167 projects in 54 countries around the world. On a regional basis, the largest share of the portfolio was in Latin America and the Caribbean, where there were 57 projects. Fifty-three projects were supported in East Asia, 21 in the Middle East/North Africa, 17 in Sub-Saharan Africa, 11 in Europe, and 8 in South Asia. In all, these projects involved a total U.S. investment of $1.6 billion and a total project investment of nearly $3.0 billion.

OPIC makes special efforts to promote investments in the poorest developing countries and those involving U.S. small businesses. As a result, 85 (or 51 percent) of the projects assisted in FY 1988 were in countries with per capita incomes of $896 or less (in 1983 U.S. dollars), and 53 (or 32 percent) involved small U.S. companies or cooperatives.

OPIC conducted investment missions to Bangladesh, Nigeria, Northern Ireland, the Republic of Ireland, and Turkey in FY 1988. 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 1988. Of all OPIC-assisted projects, 25 (or 15 percent) were located in the Caribbean Basin, and 16 of these (64 percent) were sponsored by small businesses. Total investment in all Caribbean projects was $68 million, of which U.S. investors supplied $56 million.

Effects on developing countries. When determining whether to assist an investment, OPIC is required to consider both the economic and social development benefits of a project. Therefore, OPIC selectively supports only investments that can favorably affect host countries. Applying this criterion, the FY 1988 projects insured or financed by OPIC are expected to employ by the fifth year of operation a total of 20,075 people, 3,748 of whom will be in managerial or professional positions. More than $1.6 billion of the total FY 1988 investment will be spent locally for goods and services, and an additional $36 million will be spent in other developing countries. Once in operation, these projects are expected to generate annually an estimated $63 million in net foreign exchange earnings and $137 million in net taxes and duties.

OPIC is also required by Congress to review possible adverse impacts that OPIC-supported investment projects may have on the environment of developing countries. In FY 1988, OPIC reviewed the potential environmental impacts of more than 200 projects and carried out detailed assessments for 73 projects in the agriculture, aquaculture, manufacturing, food processing, construction, tourism, oil, and natural resource sectors. As a result of these assessments, OPIC issued environmental notifications to two host country governments concerning two projects. OPIC is required by law to issue such notification for projects that it deems to be environmentally sensitive.

OPIC is required by Congress to apply to its programs any internationally recognized workers rights determinations made by the Executive Branch under the Trade Act of 1974, as amended, for those OPIC-eligible countries that were also eligible for Generalized System of Preferences (GSP) benefits. For countries that are not part of the GSP system, OPIC makes independent determinations following consultations with various Federal agencies. In January 1988, the President determined that Chile should no longer be eligible for GSP on workers rights grounds and, accordingly, OPIC suspended its programs there.

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 1988 are expected to generate 12,984 person-years of employment for U.S. workers and approximately $1.6 billion in U.S. exports for initial and ongoing procurement of materials and equipment.

5.4 Peace Corps

Peace Corps Philosophy and Goals. For the last 27 years, the Peace Corps 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. During FY 1988, the Peace Corps placed Volunteers in five more host nations--Cape Verde, the Comoro Islands, Guinea (Conakry), Guinea-Bissau, and Pakistan--to bring its total to 64 countries. In addition, discussions were opened with the Government of the People's Republic of China about establishing a Peace Corps Volunteer program there.

The Peace Corps continues 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 can best enhance the abilities of the host country's poorer citizens to improve their quality of life.

Peace Corps goals, as stated in the Peace Corps Act of 1961, are

-- To promote world peace and friendship by making available to interested countries U.S. Volunteers who are willing to help the people of these countries meet their needs for trained manpower

-- To promote a better understanding of the American people among the people served

-- To promote a better understanding of other people among the American people

Since 1961, more than 125,000 Peace Corps Volunteers and staff have served in 95 countries. Most of these Volunteers worked in education programs (55 percent); another 25 percent were engaged in what was generally labeled as community development activities.

Today, the Peace Corps stresses a historic, broadly based, grassroots approach to development. The 1980s brought increased public and Congressional support for the Peace Corps and its Volunteers. The Peace Corps has been given strong support by the Congress and the President to persevere in its role as "leader for peace." As an expression of that commitment, Congress has authorized the Peace Corps to expand to 10,000 Volunteers from its FY 1988 level of 5,875.

Activities in FY 1988. During FY 1988, the Peace Corps continued its tradition of service to the developing world. The Peace Corps budget for FY 1988 totaled $153 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 largest Peace Corps budget 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 categories of expenditures. Over half of all Peace Corps staff are stationed overseas.

During FY 1988, 3,344 trainees entered on duty with the Peace Corps. The average age of a Volunteer in FY 1988 was 29, although the median age was just over 24. The Peace Corps, as a matter of policy, is committed to recruiting larger numbers of Senior Volunteers (those 50 years of age and older). In FY 1988, 11 percent of Volunteers were Senior Volunteers. The distribution between men and women was almost even, with women constituting 52 percent of Volunteers and men 48 percent.

The following 64 countries hosted 5,875 Peace Corps Volunteers in FY 1988:

-- **Africa Region**: Benin, Botswana, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Equatorial Guinea, Gabon, The Gambia, Ghana, Guinea-Bissau, Guinea (Conakry), Kenya, Lesotho, Liberia, Malawi, Mali, Mauritania, Niger, Rwanda, Senegal, Sierra Leone, Swaziland, Tanzania, Togo, and Zaire (2,513 Volunteers)

-- **Inter-America Region**: Anguilla, Antigua and Barbuda, Barbados, Belize, Costa Rica, Dominica, Dominican Republic, Ecuador, Grenada, Guatemala, Honduras, Jamaica, Montserrat, Paraguay, St. Kitts/Nevis, St. Lucia, and St. Vincent/Grenadines (1,956 Volunteers)

-- **North Africa, Near East, Asia, and Pacific Region**: Cook Islands, Comoro Islands, Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Morocco, Nepal, Pakistan, Papua New Guinea, Philippines, Seychelles, Solomon Islands, Sri Lanka, Thailand, Tonga, Tunisia, Tuvalu, Western Samoa, and Yemen (1,406 Volunteers)

At the beginning of FY 1988, the Peace Corps established the **Associate Volunteer Program**, which attempts to make Peace Corps service available to more people by varying the length of Volunteer tours of service, thereby opening the Peace Corps experience to a new constituency. This flexibility allows for more recruitment of experienced, highly trained people who have the skills increasingly requested by host countries and who are increasingly difficult to recruit for 2-year tours of service. During FY 1988, the Peace Corps also continued its involvement with the **United Nations Volunteer Program** by supporting 34 American UN Volunteers.

In addition to its regular programs, the Peace Corps continued to support the **Africa Food Systems Initiative**, which became fully operational in FY 1987. This 10-year program is directed at improving food production in certain regions (primarily the Sahel) within selected African nations.

Current plans to expand the number of Peace Corps Volunteers focus on strengthening training so that more generalists can be used in skill areas where the supply of Volunteers is low, and expanding recruiting efforts in skill areas in high demand but short supply, such as agriculture, education, forestry, and fisheries.

Peace Corps Volunteers were active during FY 1988 in the program areas described below.

-- **Agriculture**. Traditional agricultural systems in the developing world face tremendous developmental and population pressures to produce more food. In FY 1988, more than 1,500 Volunteers worked to address this need through crop extension, soil science, agricultural economics, animal husbandry, cooperative development, and rural youth development programs. A major priority was initiation of the Farmer-to-Farmer Program in cooperation with A.I.D.

-- **Education**. Since 1961, more than 5 million students in developing nations have been taught by Peace Corps Volunteers. In FY 1988, nearly 1,800 Volunteers taught English, mathematics, and science; worked with the blind, deaf, and mentally and physically impaired;

trained primary and secondary classroom teachers; and assisted communities with the development of nonformal education and youth-related activities.

- -- **Energy/Appropriate Technology**. In FY 1988, 24 Peace Corps programs in 20 countries focused on appropriate technology and energy. The programs recognize that the choice and techniques of development must be consistent with local needs and traditions, that programs can have beneficial effects on the lives of people that go far beyond economic considerations, and that the sharing of technologies between cultures is possible and desirable.

- -- **Fisheries**. The Peace Corps has been involved in this program since 1962. In FY 1988, approximately 375 Volunteers in 32 countries were involved with fisheries programs in freshwater fish culture, mariculture, inland capture fisheries, and marine fisheries.

- -- **Health**. Peace Corps health Volunteers continue to focus on essential health services for those most in need, that is, women and young children. They also promote the development of local capacities to meet basic health needs. In FY 1988, the majority of the 450 Volunteers serving in health programs in 35 countries worked within national primary health care systems and focused on maternal/child health activities, nutrition, community health education, and water and sanitation projects.

- -- **Natural Resources**. More than 560 Volunteers participated in natural resource projects in 45 countries during FY 1988. Two-thirds of the Volunteers worked in forestry areas such as agroforestry, extension, and management. The others pursued projects in environmental education, wildlife management, national park development, biological diversity, and soil conservation.

- -- **Small-Enterprise Development**. The Peace Corps had 2,645 Volunteers working in small-enterprise development projects during FY 1988 to promote local economic development through self-sustaining small-business activities, which in turn lead to the creation of employment opportunities. Small-enterprise development projects often involve the development or management of cooperatives, credit unions, group businesses, and chambers of commerce.

- -- **Urban/Community Development**. Rapid population growth and unprecedented rates of urbanization are causing profound changes in less developed countries' social and economic structures. By early in the next century, urban populations will exceed those in rural areas. Peace Corps Volunteers were involved in 15 urban development projects in FY 1988, providing assistance in the areas of urban and community development and youth development.

- **Water/Sanitation**. The Peace Corps has long been actively involved in the search for solutions to the lack of water. Volunteers have been involved in hundreds of projects to improve wells, springs, dams, catchments, water systems, and latrines owned and maintained by local people. In FY 1988, more than 400 Volunteers worked in water and sanitation programs in 25 countries.

- **Women in Development**. Volunteers worked with women at the grassroots level in agriculture, fisheries, rural development, small-enterprise development, health, education, forestry, and community development projects. The purpose of the Women in Development Program is to ensure that the roles of women in their local communities are properly understood so that development efforts can involve women more effectively.

Peace Corps Collaborative Efforts. The Peace Corps continues to maintain its policy of collaborating with other programs serving the developing world. These collaborative efforts avoid duplication of effort by different organizations. The guiding rationale for Peace Corps collaboration is that mutual benefits be derived by each party and by beneficiaries. Accordingly, the Peace Corps continually reviews and revises its activities with other Federal, international, and host country organizations and PVOs.

The Peace Corps has continued its efforts to expand its relationships with **PVOs** in FY 1988 by broadening existing relationships and by reaching out to other PVOs to develop new collaborative arrangements.

The Peace Corps and **A.I.D.** have achieved a great deal of progress in planning joint strategies and coordinating approaches to development problems. An A.I.D./Peace Corps Coordinating Committee, cochaired by the Peace Corps Director and A.I.D. Administrator, meets quarterly to review joint programs and plan future cooperative efforts consistent with both agencies' goals.

The Peace Corps and A.I.D. collaborate via Participating Agency Service Agreements. These agreements combine A.I.D. and Peace Corps resources to enhance the Peace Corps' 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 were in effect during FY 1988:

- **Child Survival**. The purpose of this Agreement is to strengthen Peace Corps Volunteers' participation in child survival projects that focus on such interventions as growth monitoring, oral rehydration, infectious disease control, immunization coverage, and breast-feeding.

- **Combating Childhood Communicable Diseases (CCCD)**. The CCCD 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. Peace Corps Volunteers are working in the health education component of the CCCD program. This Agreement supported development of a training manual for Peace Corps Volunteers to use in addressing the high rates of infant and child mortality and morbidity in Africa.

-- **Farmer-to-Farmer Program**. At the outset of FY 1988, the Peace Corps, A.I.D., and Volunteers in Overseas Cooperative Assistance signed a 2-year collaborative agreement to support the Farmer-to-Farmer Program. The purpose of the program is to involve short-term farmer Volunteers in ongoing Peace Corps projects in order to increase the production and income of host country farmers. The first Farmer-to-Farmer Volunteers began service in March 1988.

-- **Forestry**. A joint A.I.D./Peace Corps Forestry Resource Management initiative will support forestry and natural resources activities through FY 1990. This initiative has increased the Peace Corps' ability to work with host countries and PVOs on community-level forestry projects, Food for Work/PL 480 programs, anti-desertification and soil erosion control efforts, and related programs.

-- **Microenterprise Development**. This new collaborative effort between A.I.D. and Peace Corps was initiated at the end of FY 1988 to strengthen existing microenterprises and provide support for development of new small businesses in the targeted countries. The program will provide microenterprise development training and technical assistance to Peace Corps Volunteers and their counterparts in 10 countries over a 2-year period.

-- **Nutrition**. This Agreement supports activities that will strengthen household food security and family nutrition status. More than 250 Volunteers have been trained to assess household food needs and develop appropriate village-level interventions in family gardens, small-animal husbandry, postharvest technology, and nutrition education.

-- **Small Project Assistance**. The Small Project Assistance Program jointly established by the Peace Corps and A.I.D. has been in operation for almost 5 years. The program funds small-scale development projects identified by Volunteers working with local community organizations in 40 countries. A typical project might enable a community to build a grain storage facility, start a poultry-raising operation, or install a potable water system. Over 2,500 projects have been funded since 1983.

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. Thousands of Volunteers continue to serve in government, some in elective offices. Many others have remained involved in development assistance through employment in private firms, other volunteer organizations, and A.I.D. And perhaps most important, Peace Corps Volunteers continue to present a positive image of Americans to much of the developing world and to provide Americans at home with a personal view of the contributions America makes in assisting the third world.

5.5 Private Voluntary Organizations

The A.I.D./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 third world countries. 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 developing countries--resources reportedly worth over $2 billion in 1987. 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 areas as credit and entrepreneurial advisory services, health services, appropriate technology, forestry, 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 in small-enterprise development; primary health care (particularly in demonstrating basic health care practices such as oral rehydration, immunization, and simple first aid); preservation of natural resources (whether through reforestation, land terracing, or other methods); and credit delivery to men and women unreached by the formal sector.

In FY 1988, 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 $451 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.

5.6 The U.S. Trade and Development Program

The U.S. Trade and Development Program (TDP) was established in 1980 as a component of the International Development Cooperation Agency. The objectives of TDP are to promote U.S. exports and economic development, and thus TDP is both a trade and an aid program. TDP accomplishes its two objectives by financing feasibility studies and related planning services, such as technology symposia, training, and reverse trade missions for projects in developing countries. These projects must be important to a country's development and offer good export opportunities for U.S. equipment and services.

Essentially, TDP serves as a catalyst to open markets to U.S. firms and to encourage U.S. private sector involvement in infrastructure development in third world countries. TDP was funded at $20 million for FY 1987, $25 million for FY 1988, and $25 million for FY 1989.

TDP operates distinct programs for public and private sector feasibility study financing. The public sector program, utilizing about 90 percent of TDP funds, offers grants to foreign governments for feasibility studies. Studies are prepared for large-scale public sector projects, such as power facilities, sewage plants, and airports. The feasibility studies and other planning activities are carried out by U.S. firms. The involvement of U.S. firms in the early stages of project development often enables the firms to win large follow-on contracts and tends to encourage the procurement of U.S. equipment in the project implementation phase. It may also create long-term business relationships and establish a base for U.S. firms in their future efforts to expand market share.

The private sector program, comprising about 10 percent of TDP funds, offers cost-sharing of feasibility studies with U.S. investors on a reimbursable basis. The private sector program has recently been restructured to provide assistance at a more advanced stage of project preparation than had been the case previously. Under this program, TDP will provide assistance on a 4-year, no-interest loan basis for up to 50 percent of the cost of the feasibility study to a U.S. private investor who intends to invest in a developing country. The U.S. investor must maintain substantial equity in the project, and the project must generate a significant amount of U.S. exports.

TDP emphasizes project development in middle-income developing countries in which the United States has no bilateral aid program or in which economic assistance is being phased out. Among the countries where TDP is active are China, Colombia, Taiwan, Turkey, and Zimbabwe.

TDP also promotes exports in a number of important sectors in developing countries around the world. Although TDP attempts to select projects that will give an immediate return on the TDP investment, TDP also attempts to counter U.S. market share erosion in particular sectors.

An example of these policies is found in Taiwan, where TDP's strategy has been to concentrate on a few selected sectors, including the mass transit sector. The two largest urban centers of Taiwan, Taipei and Kaohsiung, have developed major traffic problems. In the 1980s, authorities in Taiwan became interested in mass transit as a solution to their growing traffic dilemma. Such public works projects range in cost from $15 to $20 billion, providing significant potential for U.S. exports. As a result, TDP has invested $1 million to position U.S. firms in the mainstream of competition for these projects. Thus far, a consortium of U.S. engineering firms has won a general engineering contract for over $100 million, with about half of that going for U.S.-based engineering services.

One of TDP's greatest contributions is its assistance to U.S. companies in establishing contacts and a market presence in a country while executing a TDP-funded study. Although not all projects related to the feasibility study go forward, the companies connected with the studies gain recognition and a reputation as strong competitors. In the international marketplace, companies repeatedly receive offers and contracts for spin-off projects related to their participation in a TDP-funded project.

As a result, one of the most important aspects of the TDP program is the ripple effect of the feasibility studies TDP finances. For example, in 1986 TDP financed a $650,000 feasibility study on a major hydropower facility in Nepal carried out by the firm Morrison-Knudsen of Idaho. Morrison-Knudsen conducted the study with a partner from the Peoples's Republic of China. The Chinese partner was so impressed with Morrison-Knudsen's expertise on the Nepal project that the Government of China in turn awarded Morrison-Knudsen a $20 million contract for work in China. The TDP study thus gave Morrison-Knudsen significant inroads not only into Nepal but also into China, resulting in additional business to a U.S. firm.

5.7 U.S. Programs in Support of Regional Development Foundations

5.7.1 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 American and Caribbean countries. Unlike larger bilateral foreign aid programs, the IAF works with private organizations rather than governments to promote the ideas and involvement of the region's poor in their own development at the grassroots level. The IAF is funded by Congressional appropriations and the Social Progress Trust Fund administered by the Inter-American Development Bank.

The IAF carries out its legislative mandate in the following ways:

-- 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 participation in community and national development by groups that are usually denied a voice in development decisions and largely excluded from the benefits of the 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 68-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 a large number of 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 types of activities eligible for support.

Grants may be made to institutions that are

- Local private institutions in Latin America or the Caribbean

- Nonpartisan and do not engage in political activities

- Established organizations with competent, committed leadership; a good record of performance; and roots in their local communities

- Democratically organized and managed

Grants may be provided to support projects that

- Benefit poor people, who participate in their design and management

- Are technically and managerially feasible and have the support of the local community

- Strengthen the sponsoring organization and enable it to assume subsequent tasks

- Represent part of a broad range of activities that are innovative and experimental and offer promise for expansion or replication in other settings

- Are capable of being sustained with local support beyond the period of the grant

Over the past 18 years, the IAF has made more than 2,700 grants totaling $272 million in 36 countries throughout Latin America and the Caribbean. Many grants are made to grassroots organizations such as agricultural cooperatives, community associations, and small urban enterprises. Grants are also provided to larger organizations that offer credit, technical assistance, training, and marketing services. The average size of IAF grants is $67,000; however, the IAF has made grants ranging from less than $1,000 to $2.5 million. In FY 1988, the IAF approved approximately 370 new and supplemental grants totaling $23 million.

Among the grants made in FY 1988 were the following:

- $54,000 to build feeder roads to support peasant resettlements in the Alto Beni region of Bolivia, provide health services to residents, and allow students to attend pre-university classes to learn about local development problems

- $18,400 for a nutrition training center to prepare 25 young K'ekchi Indian women to carry out health and social promotional work in the Chisec region of Guatemala

- $74,145 to carry out a literacy and leadership training program among 600 adults selected from 20 slum dweller associations in Fortaleza, Brazil

- $66,300 to assist two Peruvian alpaca herder cooperatives to expand their processing and marketing of wool and meat, a project that will benefit not only the 106 cooperative members but also the 3,000 inhabitants of two adjacent communities

- $24,000 to enable a Mayan farmers cooperative in Belize to clear 60 acres of jungle to plant rice and beans, purchase hulling equipment and silos for processing and storage, and increase its membership by teaching production, storage, and marketing methods throughout the region

- $85,125 to create a loan fund for productive projects in 30 Mexican indigenous communities, complete a study of the economic conditions and opportunities in the isthmus of Oaxaca, and sponsor workshops on pest control, production techniques, soil treatment, and marketing

- $22,000 to design and publish a workbook and poster series on conserving the local ecology and to introduce this subject into 32 primary and secondary schools in a Honduran municipality

- $82,300 to provide technical assistance, training, and material support for a regional association of 700 small-scale farmers in the Dominican Republic to help the association diversify agricultural activities and intensify efforts to reforest barren mountain slopes in the country's central highlands.

5.7.2 African Development Foundation

The African Development Foundation (ADF) was established by Congress in 1980 under the authority of the African Development Foundation Act (22 U.S.C. 290h) to encourage and support Africans in carrying out their own development strategies and programs through the following means:

-- Providing support to small community-directed development efforts

-- Supporting sustainable development strategies by indigenous African organizations

-- Stimulating and assisting effective participation of Africans in their own development process

-- Encouraging the establishment and growth of indigenous development institutions that can respond to the requirements of the poor in those countries

-- Facilitating the dissemination of development information and ideas at the grassroots community level throughout Africa

Organizations receiving support from the ADF must involve the poor in all phases of the development process, particularly in the design, implementation, and management of projects.

Since the ADF became operational in 1984, it has distributed over $15.2 million to over 195 development and research projects in 25 African countries (Benin, Botswana, Cameroon, Cape Verde, The Congo, Egypt, Ghana, Guinea, Kenya, Lesotho, Liberia, Malawi, Mali, Niger, Nigeria, Rwanda, Sao Tome, Senegal, Sierra Leone, Somalia, Tanzania, Togo, Uganda, Zambia, and Zimbabwe).

The ADF is governed by a seven-person board of directors appointed by the President of the United States and confirmed by the Senate. Five members of the board are selected from the private sector and two are appointed from the public sector (U.S. agencies involved in African affairs). The ADF has a Washington-based staff of approximately 30 people. While the ADF does not have offices in Africa, it does rely on local African development professionals to assist project applicants and grantees with their technical assistance requirements.

Brief profiles of development projects funded by ADF are presented below.

Niger: Development of the Tinga Ponds ($210,032, 5 years). Arable land makes up only 11 percent of the total land surface in the district of Ouallam, which is located in the northernmost area of Niamey Province, Niger; at present only 8 percent is exploited. The grantee is the Ouallam Gardening Cooperative, with a membership of 750 persons (three-fourths are women) representing their respective households. These households are organized into work teams that represent various neighborhoods of Ouallam town.

The goal of the project is to develop the community's capacity for food self-sufficiency, to fight desertification in the region, and to stop the rural exodus. The specific project objectives are to create a permanent water supply for irrigation, to create a more viable vegetable production cooperative, to provide agricultural inputs and equipment to cooperative members, to conserve areas where the land has not yet been degraded by drought, and to establish and maintain a cooperative first-aid center. ADF funds are being used by the cooperative to sink 60 shallow wells; to provide irrigation and agricultural training to cooperative members; to increase vegetable production (e.g., squash, melons, peppers, tomatoes, onions); to stabilize the large sand dune that surrounds the ponds with a grass hedge and windbreaks; and to train selected villagers to work in the first-aid center.

Benin: Songhai Revolving Loan Fund ($130,056, 3 years). The Songhai Center is an integrated village-based agricultural training center in Ouando that provides training to students and Songhai community members in fish culture, crop production, small animal husbandry, and biogas technology. The Songhai Center teaches students to adapt basic technologies using local raw materials and resources to create a self-sustaining integrated food production system. Through the ADF grant, the Songhai Group is establishing a revolving loan fund to enable students, after completion of a 4-year training program, to set up an integrated food production system in their respective villages. Business management training is provided to students prior to receipt of credit assistance through the Songhai Loan Fund. Songhai credit will support activities in animal husbandry, agriculture, fish culture, and biogas technology.

Lesotho: Migrant Labor Program ($213,831, 5 years). The Lesotho Catholic Bishops Conference was established in 1972 to address specific development needs of Lesotho. The migrant labor department of the conference was created in 1980 as part of the Commission for Health and Social Welfare; it works closely with the Ministry of Labor, mine labor organizations, and the Christian Council of Lesotho. The goal of this project is to educate young migrant laborers about alternatives to employment in the mines by creating an integrated program of skill training and community-based income-generating projects that will lead to increased job opportunities, investments in rural areas, and a transfer of skills back to the villages.

The 5-year project will provide training and business start-up support to 90 young people selected by their parish communities. Those selected will receive training for 2 to 3 years at established vocational institutions in Lesotho, such as the Lesotho Agricultural College, Leribe Craft School, Lesotho Opportunities Industrialization Center, and St. Elizabeth's Home Economics School. After graduation, the students will receive loans from the Lesotho Cooperative Credit Union so that they can apply their vocational skills to starting up their own business. It is expected that by the end of 5 years, 90 people will have been trained in such fields as agriculture, animal husbandry, carpentry, mechanics, masonry, plumbing, tailoring, and dressmaking at the various vocational institutes in Lesotho.

ADF is providing funds for the scholarship fund for the 90 trainees, for technical assistance in management planning and market surveys, for salary and travel costs for a project coordinator and business support officer, and for the purchase of a vehicle for use in monitoring the project.

Zimbabwe: Credit Union Promotion, Training, and Development Project ($120,337, 5 years). The Solidarity Credit Union is a nonprofit community credit institution located in Luveve, a high-density suburb 20 kilometers outside of Bulawayo, Zimbabwe. The organization was created in 1984 and had 12 initial members. Today, there are 218 savings club members, of which 50 are also enrolled in the credit union. Solidarity's purpose is to promote savings plans among poor, low-income residents in Luveve-Bulawayo and to establish a credit facility for people who have traditionally found such institutions inaccessible.

The overall goal of this project is to legitimize the establishment of a local credit facility. Solidarity is a growing institution and in need of business/management skills and the infrastructure necessary to offer an expanded credit portfolio to its members for group loans in productive enterprises such as consumer transport, mining, and manufacturing cooperatives. Solidarity has fairly comprehensive guidelines for its credit facility, which extends loans for productive or provident reasons, including consumer loans, mortgage loans, and cooperative farm and business loans. The interest rate is 12 percent for short-term loans (18 months or less) and 8 percent for medium-term loans (19 months to 5 years).

The credit union is using ADF funds to establish the revolving loan fund for productive loans and to purchase office equipment, training materials for business and management courses, and a vehicle to enable credit union staff, trainees, and members to attend business, accounting, and management courses in Bulawayo. The direct beneficiaries of the project are the 50 credit union members and the 218 savings club members--all residents of Luveve. By the end of the ADF funding period, the credit union plans to have expanded its membership to 600 and increased savings club membership to 1,800.

Tanzania: North Rombo Water Supply Project ($112,925, 3 years). The Shauritanga Memorial Fund was established in 1984 to support the self-help development needs of the Rombo district in northern Tanzania and was officially incorporated and registered with the Tanzanian Government in 1987.

The overall goal of this project is to provide clean water for the 22,000 residents of Usseri and Tarakea, two divisions of the Rombo district. A recent study of the Rombo district found that the area is one of the most densely populated in Tanzania, with 203 people per square kilometer, and that the area suitable for cultivation has a population density of 526 people per square kilometer, or 1.14 hectares per household. In addition, child mortality (ages 1-4) is higher in Rombo than the national average of 95 per 1,000. In Usseri and Tarakea, the average annual family income is approximately $200, the poorest in the Kilimanjaro region. Both the Shauritanga Memorial Fund and the residents view access to clean water as a response to their most basic and immediate community needs.

The Shauritanga Memorial Fund will coordinate efforts with the regional and district water engineers and local village members to construct two feeder lines and spring water intake points and connect them with two existing water systems in the region. The proposed feeder lines will increase the capacity of the existing pipeline from 39 percent to 63 percent. The residents and members of the Shauritanga Memorial Fund will contribute the labor for the project, and selected villagers will be trained in maintenance and repair of the water system. ADF funds will be used to purchase the necessary equipment and pipeline materials for the proposed water system.

CHAPTER 6

U.S. SUPPORT OF MULTILATERAL PROGRAMS

6.1 United Nations Programs

The United Nations (UN) system comprises more than 30 specialized agencies, funds, and programs that provide development assistance throughout the world. UN programs complement bilateral aid programs of the United States and other Western donors by increasing the absorptive capacity of developing countries and improving prospects for significant public and private sector participation in the development process.

During 1987, the last year for which statistics are available, concessional expenditures by the UN system on operational activities for development totaled $6.3 billion, of which loan expenditures accounted for $3.5 billion and grant expenditures for $2.8 billion. Total concessional expenditure increased by more than 10 percent over the previous year's level. This increase partially offset the net transfers of nonconcessional loans from the World Bank, which moved from a positive balance of $194 million in 1986 to a negative balance of $2.2 billion in 1987.

The majority of concessional loan funds flow through the International Development Association (an affiliate of the World Bank; see Section 6.4, which addresses the role of multilateral development banks). A significant portion, about 6 percent, flows through the **International Fund for Agricultural Development** (IFAD). IFAD was created through a joint effort of the Organization for Economic Cooperation and Development and the Organization of Petroleum Exporting Countries. The United Sates supports this effort to mobilize resources from nontraditional donors as well as IFAD's focus on enhancing the productivity and incomes of small farmers in least developed countries.

Quantitatively, grant resource flows to Africa have increased as a proportion of the total, a shift supported and assisted by the United Nations Program of Action for African Economic Recovery and Development, 1986-90. Qualitatively, increased cooperation between the World Bank, on the one hand, and the United Nations Development Program and the technical agencies within the UN system, on the other, should result in closer ties between technical and capital assistance programs and UN support of the broader goals of structural adjustment. Efforts to improve the effectiveness of UN development assistance have been given impetus by a resolution on operational activities for development adopted by the General Assembly late in 1987.

The United States supports, through assessed or voluntary contributions, the development programs of a wide range of agencies and organizations within the UN system. The UN organizations described below accounted for approximately 85 percent of the grant-financed expenditures carried out in 1987.

The **United Nations Development Program** (UNDP) is the main funding and coordinating mechanism for the delivery of the UN system's grant technical assistance. It is encouraging to note that the UNDP country programming process not only is increasingly taking into account the large-scale World Bank/International Monetary Fund-sponsored structural adjustment programs but is also aligning programs more closely with individual country development plans and capabilities.

The **Food and Agricultural Organization** (FAO) seeks to raise levels of nutrition and living standards by improving the production and distribution of food and agricultural products. FAO is the largest supplier of technical assistance to the agricultural sector of developing countries and the largest executor of UNDP-funded projects. Since May 1988, FAO has been undergoing a major review, which is focused on its role, priorities, strategies, objectives, and field operations.

The **World Food Program** (WFP) was established in 1963 by the UN and FAO as the principal vehicle for multilateral food aid within the UN system. The WFP serves as the largest channel for grant-funded development activities within the UN system, accounting for 25 percent of such expenditure in 1987, as it did in 1986. The major portion of its activities, approximately 75 percent, is carried out through development projects, such as food-for-work projects, while the remainder is accounted for by emergency feeding programs. A subcommittee on projects was established in 1988 to allow member countries to participate more effectively in project review and approval.

The **World Health Organization** (WHO) accounted for 15 percent of the total grant-funded development expenditure by agencies within the UN system. UN system expenditures in the health sector, however, accounted for 25 percent of expenditure by all agencies and organizations during 1987. As the organization strives to eliminate traditional diseases through programs of immunization, it is also coordinating the global effort to address the problem of acquired immune deficiency syndrome (AIDS).

The **United Nations Children's Fund** (UNICEF) cooperates closely with developing nations in their efforts to address the needs of mothers and children as vulnerable groups. UNICEF projects generally utilize simple technologies, are implemented at the village level, and entail a large degree of self-help and popular participation. UNICEF has lately taken the lead in efforts to alleviate the negative impact of the structural adjustment programs being implemented by many developing countries.

The **Department of Technical Cooperation for Development** of the UN was established as the operational arm of the United Nations Secretariat in 1978 and is currently the second largest executor in the UN system for UNDP-funded projects. The Department provides technical assistance to developing countries mainly in areas pertaining to natural resources and energy, development planning, and public administration. During 1987, the Department continued to markedly increase the proportion of its activities in Africa in response to the tremendous needs of that continent.

The **International Labor Organization** (ILO) is concerned with working conditions and the general standards of employment throughout the world. In addition, the ILO provides technical assistance in a variety of labor- and management-related fields. The United States particularly supports its activities to promote employment in the rural areas and informal sectors of the developing world.

The **United Nations Industrial Development Organization** (UNIDO) promotes industrialization in developing countries and is a major supplier of technical assistance for industrial development. The United States supports UNIDO efforts to promote investment in the private sector of developing countries.

The **United Nations Educational, Scientific and Cultural Organization** (UNESCO) promotes collaboration among member states in the fields of education, science, and culture. Concerned with the organization's politicization, the United States withdrew from UNESCO in 1984 but continues to promote reform of the organization. The new director of UNESCO called for budgetary restraint, depoliticization, and a restructuring of program activities and has begun to implement these changes. If significant reform is achieved, the United States will reassess its position on membership.

The **United Nations Fund for Population Activities** (UNFPA) seeks to amass the knowledge and develop the capacity to respond to family planning needs throughout the world, to create an awareness of these problems and the strategies to deal with them, and to play a leading role within the UN system in promoting population programs. The United States has not contributed funds to UNFPA since 1985 because of Congressional strictures related to the possible use of UNFPA funds for abortion.

6.2 Inter-American Organizations

Six regional organizations constitute the inter-American system, of which three--the Organization of American States (OAS), the Pan American Health Organization (PAHO), and the Inter-American Institute for Cooperation on Agriculture (IICA)--have major programs in technical assistance. In 1988, the United States contributed $88.45 million in assessed and voluntary contributions to these organizations.

OAS programs in development assistance date from the early 1960s (Alliance for Progress). They have trained approximately 90,000 specialists (35,000 since 1970) either in the United States or in the 23 specialized Inter-American Centers jointly funded by the OAS and member countries. Consistent with the early goal of institution building, some of these centers have been turned over to the host country (e.g., the Inter-American Center for Trade Development in Colombia) and others are scheduled for turnover in 1989. They provide specialized training, research, and extension services. Insofar as they continue to provide such services to other OAS members, these centers will continue to receive OAS support. Two decades of experience have endowed the OAS with a tested body of professionals and institutional know-how specially attuned to area needs, conditions, and priorities.

Ever since the OAS founded the Inter-American Development Bank (IDB) in 1959-60, the OAS, PAHO, and IICA have worked closely with the bank in a fruitful division of labor to assist development. Over $6 billion in follow-on financing has been provided by the IDB (sometimes in collaboration with the World Bank) to carry out projects for which the OAS conducted the feasibility studies.

The special capabilities of the OAS, PAHO, and IICA in carrying out effective programs have been recognized by UNDP, the United Nations Environmental Program (UNEP), and other national and international entities that have contracted their expertise for major projects. For example, A.I.D. is financing an OAS project that is attempting to mitigate natural hazards and their impact on economic development in Latin America and the Caribbean. Another success story has been an ongoing joint A.I.D./OAS project in employment generation through skills training for youth in the Caribbean area. The OAS and IICA, with their own and IDB financing, have undertaken a major joint project to develop the border region between Guatemala, Honduras, and El Salvador. The U.S. Department of Agriculture provided major funding ($15 million) to IICA to eradicate swine fever in Haiti in 1982-87; this has been followed up by a major swine repopulation program undertaken by A.I.D.

External financing is playing an increasing role in augmenting the resources available to these organizations to extend health services and disease immunization programs, increase food production, and develop new products for export. Coordination among IDB, OAS, PAHO, and IICA is greatly enhanced by common language, educational background, and technical experience, as well as generally shared development objectives in the hemisphere. When the OAS discontinued its rural development program in 1982, for instance, IICA picked up these activities and reallocated its resources.

Each of these inter-American specialized organizations has an enviable record of accomplishment. Equally important, especially for the future, has been their uniform success in pursuing their goals without extraneous, disruptive politicization of their programs or institutional structure. This has also been a notable feature of OAS programs in education, science, and culture, which have made a remarkable contribution to the spread of know-how, mass education, and technical training in member countries.

6.3 Development Assistance Committee

The current work of the Development Assistance Committee (DAC) focuses on two major areas. The first concerns **aid coordination** and the related need to assist recipient countries to implement coherent economic policies and investment programs. The second addresses efforts to assist recipient countries to increase their **economic management capacities**, both at the central level and in the main economic sectors. In 1988, DAC held major reviews of the coordination of structural adjustment assistance, health programs, technical cooperation, appraisal of aid projects, nongovernmental organizations, the private sector, and environmental aspects of development cooperation. These reviews focused on relevant development issues, donor policies, and programs of aid cooperation.

DAC members have approved a series of guiding principles designed to give general direction to individual and collective donor efforts to enhance aid cooperation with developing countries. DAC continues to pursue and refine approaches to coordination, especially those involving enhanced arrangements at the local level in recipient countries. Joint DAC donor missions have visited Bangladesh, Nepal, Senegal, and Tanzania to assess the extent and efficiency of local coordination. Resulting survey findings provide valuable insight into the problems of achieving effective, ongoing coordination in developing countries.

With the major international effort to assist African countries to implement structural adjustment programs and policy reforms, supported by new facilities of the World Bank and the International Monetary Fund, aid coordination has become both more important and more complete. In October 1988, DAC considered progress to date and discussed concrete steps to further improve coordination. In this review, attention centered on the flexibility of donor aid modalities and procedures, the role of recipient countries in the formulation of Policy Framework Papers, and various arrangements for consultations on appropriate strategies among leading donors in individual developing countries. Views were exchanged on ways that DAC consultative groups and round tables can best be used in pursuing and following up on key issues and improving the linkages between international and local coordination mechanisms.

At the DAC High-Level Meeting last year, aid ministers agreed to begin work on a consensus statement on future aid priorities and objectives. This "Aid in the 1990s" project will try to put all of the major issues DAC has been working on in recent years into the context of development cooperation in the next decade. The effort to look ahead should help to provide a new sense of direction to ongoing work in DAC. Already two major interrelated themes have been identified that, as elaborated over the course of the next year, will constitute a basic frame of reference for aid policy development and program strategies for DAC donors in a wide range of areas. These two themes are "sustainability" and "broad-based economic growth." Donors at the DAC High-Level Meeting in December 1989 will issue a statement conveying the essence of these themes and identifying the strategic directions for aid policies that are perceived to emerge from them.

The DAC Working Party on Financial Aspects of Development Assistance regularly addresses DAC members' policies and practices concerning associated financing and tied or partially untied official development assistance. Last year, the working party reviewed the implementation by DAC Members of previously agreed guiding principles on associated finance. In connection with proposals submitted by the United States, the working party considered a number of issues related to donor policy and practices in the use of tied aid for capital projects, including how further progress could be made to ensure developmentally effective use of aid in countries where no established aid coordination arrangements exists. DAC also agreed to look at the effects of tying aid procurement, especially with regard to cost-effectiveness from the standpoint of recipient countries.

In the area of measures to improve aid effectiveness, DAC has completed work on a set of principles for project appraisal. The principles were developed through a process of intense consultations among member agencies and take into account views of the major multilateral development financing institutions, Arab donors, and a number of individual experts from developing countries. The whole cycle of analysis and decision-making is covered, from project identification, through appraisal and design, to final project choice, implementation and evaluation. The principles bring together in a concise and coherent form much of the work done under DAC auspices on essential aspects of aid management and policy. They reflect to a large extent already widely used "best practices," but member agencies have also agreed to review their current practices against these standards.

Other work undertaken in DAC during 1988 included reviews of development issues, donor approaches, and aid experience with the private sector, nongovernmental organizations, technical cooperation programs, development cooperation in the health sector, and environmental concerns.

-- **Private Sector**. Originally prompted by Japan's proposals to consider the use of official development assistance as a catalyst for foreign direct investment, DAC members held an extensive review that covered a number of issues related to aid efforts to promote the private sector in developing countries as well as measures to stimulate direct investment. Donors agreed to dispatch joint country teams to examine the use of aid to support private sector development and investment.

-- **Nongovernmental Organizations**. The DAC review of nongovernmental organizations centered on the evolving relationships between nongovernmental organizations in donor and developing countries, especially the potential for giving nongovernmental organizations in developing countries a greater role in development programs. Also examined was how donor country nongovernmental organizations can assist organizations in developing countries to become more effective agents for development.

-- **Technical Cooperation**. DAC held an in-depth review of technical cooperation that addressed policy as well as operational concerns. Donors focused on the role and objectives of technical cooperation in the 1990s, on issues related to the management and coordination of technical cooperation, and on technical cooperation personnel and other modes of delivering technical assistance to developing countries.

-- **Health**. The discussion of health sector issues concentrated on the priority of and means for strengthening development cooperation in the area of primary care. Donors considered the crucial issues of financial sustainability in health programs, the role of women in primary care, and ways of strengthening recipient countries' capacity to manage health care systems.

-- **Environment**. Several DAC meetings were devoted to environmental cooperation with developing countries. The environmental assessment policies, procedures, and practices of members were reviewed. Ways in which donors can help strengthen the capability of developing countries to deal with environmental issues received major attention. DAC donors agreed on an "Environmental Checklist for Possible Use of High-Level Decision Makers in Bilateral and Multilateral Development Assistance Institutions" and forwarded the checklist to the Council of the Organization for Economic Cooperation and Development for adoption.

The *1988 DAC Chairman's Report* surveys current development issues including perspectives on aid in the 1990s, low-income country debt, structural adjustment, resource flow trends, and aid policies. In addition, the report discusses investment in human capital as a development priority. A special section of the report is devoted to improving aid quality through strengthened aid coordination, project selection, and evaluation.

The proposed 1989 DAC work program emphasizes longer term strategic issues, principally through the exercise on aid in the 1990s, but also through meetings on aid policies in commodity-dependent countries, strategies for supporting private sector development, the central aid issues in South Asia, and population assistance. The program continues support for work on aid coordination, structural adjustment and debt, women in development, aid evaluation, and environmental issues.

6.4 Multilateral Development Banks

The multilateral development banks are central to international economic assistance efforts. Their loans and credits constitute a significant proportion of the flow of funds going to developing countries. U.S. contributions to the multilateral development banks are an important part of the total U.S. foreign economic assistance program.

Equally important, the catalytic and development role of the banks is being strengthened significantly in certain key areas. All the multilateral development banks have established programs designed to remove institutional and structural obstacles to growth and productivity. To this end, the **Inter-American Investment Corporation** was established under the aegis of the Inter-American Development Bank, and the **Multilateral Investment Guarantee Agency** (MIGA) was brought into being as an affiliate of the World Bank Group.

The MIGA is a new World Bank institution designed to encourage the flow of investment to and among developing countries by issuing guarantees against noncommercial risks, carrying out a wide range of promotional activities, and encouraging sound investment policies. Congress has authorized U.S. participation in the MIGA and appropriated funds for the purchase of the U.S. capital share. In April 1988, the convention establishing MIGA formally came into effect.

The **World Bank** has also taken a prominent part in the international debt strategy to address the problems of debtor countries. In June 1988, its general capital increase came into effect, providing $74.6 billion in additional resources to sustain and strengthen its operations in future years. The World Bank and the **International Monetary Fund** have 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 debt strategy, the World Bank is helping to work toward the achievement of external financial equilibrium and is playing the leading role in the reduction of structural impediments to sustainable 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. Of the 17 highly indebted middle-income countries, all but Peru and Venezuela had received some form of policy-based lending as of the end of 1988. In the period 1985-88, 32.3 percent of loan commitments to the 17 countries were for structural adjustment or sectoral adjustment.

Sectoral adjustment lending has become a particularly important part of the World 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 focused in a specific sector. In 1985-88, the World Bank made loan commitments of $6.5 billion to support sectoral programs of policy and institutional change in the 17 highly indebted middle-income countries. The World Bank and other multilateral development banks continued to direct the majority of their support to projects across the spectrum of economic activities in their developing country members.

In its fiscal year 1988, the World Bank's lending, including both project and program lending, totaled $14.8 billion, up $600 million from the previous year. These 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 $4.5 billion in 1988.

The **International Finance Corporation** (IFC), a World Bank affiliate, continued to provide risk capital, long-term loans, and technical assistance to private enterprises in developing countries. During its fiscal year 1988, the IFC's board of directors approved 95 new projects totaling $1.3 billion--a 38-percent increase over the previous year. The IFC also expanded its activities in several areas. First, lending to Sub-Saharan African countries increased 73 percent, to $128 million. Second, the IFC increased its support for corporate restructuring, undertaking 12 projects of this type in 1988. Six of these projects were in Mexico, where they are expected to reduce external debt by about $1.6 billion. Third, expansion of IFC's capital market development efforts continued. Two new portfolio investment funds and a debt-equity conversion fund were launched in 1988. The United States is the IFC's largest shareholder, owning 24 percent of the shares.

Lending from the **Inter-American Development Bank** (IDB), the **Asian Development Bank** (ADB), and the **African Development Bank** (AFDB) totaled approximately $6.4 billion during calendar year 1988. Of this amount, approximately $1.8 billion was on concessional terms and directed toward the least developed member countries of these banks.

During FY 1988, the United States subscribed approximately $2.4 billion in capital and concessional resources for the multilateral development banks. This included $1.2 billion in subscriptions requiring budget authority and $1.2 billion in subscriptions to callable capital. During the year, the United States participated in an increase in capital for the World Bank and a replenishment of resources for the African Development Fund.

All the multilateral development banks have initiated a variety of environmental changes designed to promote the sustainable use of natural resources in bank-supported development projects. The World Bank, the ADB, and the AFDB have each established an environmental division. The IDB, while not creating an environmental division, has established a senior-level environmental review committee and is looking into the issue of restructuring its environmental functions. The number of professional staff with environmental backgrounds has increased in multilateral development banks, as has the emphasis on working with local and international nongovernmental organizations involved in environmental work. Continuing environmental work is taking place in all of the banks to enhance various policies and procedures, including greater outreach to nongovernmental organizations, increased emphasis on energy conservation and efficiency, and introduction of support for "debt for nature" swaps.

GLOSSARY OF ABBREVIATIONS

ADB	-	Asian Development Bank
AFD	-	African Development Foundation
AFDB	-	African Development Bank
A.I.D.	-	Agency for International Development
BIFAD	-	Board for International Food and Agricultural Development
CBI	-	Caribbean Basin Initiative
CCCD	-	Combating Childhood Communicable Diseases
CY	-	calendar year
DAC	-	Development Assistance Committee
DCC	-	Development Coordination Committee
EC	-	European Community
FAO	-	Food and Agriculture Organization
FY	-	U.S. fiscal year (October 1 - September 31)
GATT	-	General Agreement on Tariffs and Trade
GDP	-	gross domestic product
GSP	-	Generalized System of Preferences
IAF	-	Inter-American Foundation
ICRC	-	International Committee of the Red Cross
IDB	-	Inter-American Development Bank
IFAD	-	International Fund for Agricultural Development
IFC	-	International Finance Corporation
IICA	-	Inter-American Institute for Cooperation on Agriculture
ILO	-	International Labor Organization
IMF	-	International Monetary Fund

GLOSSARY OF ABBREVIATIONS (cont.)

MIGA	-	Multilateral Investment Guarantee Agency
NICs	-	newly industrializing countries
OAS	-	Organization of American States
OECD	-	Organization for Economic Cooperation and Development
OFDA	-	Office of U.S. Foreign Disaster Assistance, A.I.D.
OPIC	-	Overseas Private Investment Corporation
PAHO	-	Pan American Health Organization
PVO	-	private voluntary organization
TDP	-	Trade and Development Program
TRIM	-	trade-related investment measure
UN	-	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
WFP	-	World Food Program
WID	-	Women in Development